



State of Utah

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2005

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



State of Utah
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the “primary government” and its “component units.” The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State’s activities. The State’s component units are legally separate organizations for which the State’s elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and either: (1) the ability of the State to impose its will on that organization or; (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization’s governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State’s component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor’s Office, PO Box 142310, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State’s support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units provide services entirely or almost entirely to the primary government. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government’s debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State’s component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program, Comprehensive Health Insurance Pool and the Schools for the Deaf and Blind are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State’s major discrete component units are:

Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate-income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for local governments and other public entities within Utah. The Program is administered by the Utah State Retirement Board.

University of Utah and Utah State University — These universities are funded primarily through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State’s nonmajor discrete component units are:

Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

Utah Schools for the Deaf and the Blind — These Schools provide practical education to individuals with hearing and/or vision impairments. In prior years, these Schools were reported as governmental activities within the primary government. However, the Schools were reevaluated and are now more appropriately reported as a discrete component unit. Separate audited financial statements are not required or issued for it.

Heber Valley Historic Railroad Authority — The Authority is an independent state agency that maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the Utah College of Applied Technology. Separate audited financial statements are not required or issued for the Utah College of Applied Technology; however, its significant branch campuses each issue separate audit financial statements.

Fiduciary Component Units

Utah Retirement Systems (pension trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program

revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund.** This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Uniform School Fund.** This special revenue fund accounts primarily for revenues and expenditures that support public elementary and secondary schools in the State.
- **Transportation Fund.** This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.
- **Centennial Highway Fund.** This special revenue fund was created by the Legislature to account for specific highway projects.
- **Trust Lands Fund.** This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

Reporting for business-type activities and enterprise funds follow all GASB pronouncements, and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs.** These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.
- **Unemployment Compensation Fund.** This fund pays claims for unemployment to eligible recipients.
- **Water Loan Programs.** This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include information technology, fleet operations, risk management, copy and mail services, debt collection, and property management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension Trust Funds — These funds account for the transactions, assets, liabilities, and fund equity of the retirement systems and plans administered by Utah Retirement Systems.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Nation Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Education Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported

using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

D. Fiscal Year Ends

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension trust funds (fiduciary funds) and the Utah Dairy Commission (a nonmajor enterprise fund), which have fiscal years ending December 31.

E. Assets, Liabilities, and Net Assets/Fund Balances

Cash and Cash Equivalents and Investments

Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems (pension trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Utah Retirement Systems (pension trust funds) held four types of derivative financial instruments at yearend: futures, currency forwards, options, and swaps. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for Transportation Fund inventories that are recorded as expenditures when consumed. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Prepaid items for the Student Assistance Programs (enterprise fund) are primarily guarantor insurance premiums charged at the time loan proceeds are disbursed and are amortized over the estimated lives of the loans using a method which approximates the interest method of amortization.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets, with the exception of infrastructure, are defined by the State as assets, which cost \$5 thousand or more when acquired and have an estimated useful life greater than one year. Infrastructure assets are capitalized if the cost is over \$1 million. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3–15
Aircraft and Heavy Equipment	5–30
Buildings and Improvements	30–40
Land Improvements	5–20
Infrastructure	15–80

As provided by GASB standards, the State has elected to use the “modified approach” to account for infrastructure assets (roads and bridges) maintained by the State’s Department of Transportation. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: (1) maintain an inventory of the assets and perform periodic condition assessments; (2) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and (3) document that the assets are being preserved approximately at or above the condition level set by the State.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State’s assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue — Unearned and Unavailable

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees that are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date. A substantial portion of policy claims liabilities is long-term in nature. Therefore, claims liabilities are reported as long-term liabilities on the Statement of Net Assets.

Long-term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, deferred amount on refunding, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Federal regulations also require the Student Assistance Programs to keep the yield on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2005, the total estimated arbitrage rebate

liability in the Student Assistance Programs (enterprise fund) was \$66.411 million, of which \$63.790 million represents yield reduction payments and \$2.621 million represents the estimated liability for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Leave/Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination. Employees who have a sick leave balance in excess of 144 hours at the beginning of a calendar year are eligible to "convert" up to 40 hours of sick leave if less than that amount is used during the year. Converted sick is paid to employees upon termination. The total liability of the governmental activities for compensated absences is recorded in the government-wide Statement of Net Assets as part of long-term liabilities. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Note 10 for additional information about the liability.

Employees earn sick leave at a rate of four hours for each two-week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination unless employees are eligible for retirement or the sick leave is "converted". Sick leave is expended when used. At retirement, for participating agencies, the State will pay an employee up to 25 percent of the employee's accumulated sick leave and will pay for premiums to maintain health and life insurance coverage for up to five years or until the employee turns age 65, whichever comes first. The employee may use any remaining sick leave balances to acquire health insurance to age 65, and since fiscal year 1999, health insurance for the employee's spouse until they reach age 65, and Medicare supplement insurance after age 65 for both the employee and their spouse. See Note 17 for additional information about postemployment benefits.

The State maintains compensated absences and postemployment benefit pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination and payment of postemployment benefits are made from the compensated absences and postemployment benefit pools. Proprietary funds and private purpose trust funds of the primary government also participate in the pools and have no liability for leave or postemployment benefits once their contributions to the pools have been made.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and postemployment benefits policies vary slightly among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. Revenues and Expenditures/Expenses

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2005, the State reported revenue and expenditures of \$8.855 million for commodities in the General Fund, and \$12.103 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a pension system and/or plan administered by Utah Retirement Systems. Contributions collected for the pension systems and plans and the retirement benefits paid are both accounted for in the Pension Trust Funds. All costs for pension, health, and federal social security contributions are reported as expenditures in the appropriate function in governmental fund types or as expenses in applicable proprietary fund types. Pension and other benefit costs are recognized in the fiscal year in which the underlying payroll cost is incurred.

G. Interfund Transactions

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

NOTE 2. BEGINNING NET ASSET ADJUSTMENTS AND OTHER CHANGES

Capital asset related adjustments to beginning net assets of governmental activities reported on the Statement of Net Assets resulted in a net increase of \$2.724 million. The recorded net amount of buildings increased \$12.715 million due to a change in interpretation of federal regulations for Utah National Guard buildings and assets discovered by a federal audit at the Department of Natural Resources. In addition, \$9.991 million in capital assets were reclassified from governmental activities to a component unit (see subsequent paragraph). Had these changes been made in the prior year, the effect on governmental activities on the prior year Statements of Activities would have been an increase of \$24 thousand in expenses and \$2.748 million in beginning net assets. The effects of these adjustments on beginning amounts reported for each component of capital assets is described in Note 8.

As discussed in Note 1.A, the Schools for the Deaf and the Blind were reevaluated and are now reported as a discrete component unit. In prior years, these Schools were reported as governmental activities within the primary government (Uniform School Fund, a major special revenue fund with donations reported in a miscellaneous special revenue fund within Nonmajor Governmental Funds). As a result of this change, a reclassification of \$11.413 million was made to reduce beginning net assets of the governmental activities and increase beginning net assets of components units. This reclassification in beginning net assets includes \$9.991 million in capital assets as noted in the above paragraph. Amounts included in the governmental activities on the prior year Statement of Net Assets and Statement of Activities included the following: \$13.119 million total assets; \$1.706 million total liabilities; \$22.963 million revenues, of which \$18.107 million were state appropriations; and \$23.159 million total expenses.

A reevaluation of the recognition criteria used to report federal receivables resulted in a net decrease of \$98.949 million to beginning net assets of governmental activities reported on the Statement of Net Assets. Had this change been made in the prior year, the effect on governmental activities on the prior year Statement of Activities would have been a decrease of \$9.506 million in revenue and \$89.443 million in beginning net assets.

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* establishes standards for the measurement, recognition and display of postemployment healthcare and similar benefits (OPEB). Because retroactive application of the measurement requirements of this Statement is not required, the OPEB liability at the beginning of the transition year will be zero. In preparation of implementing this Statement for the fiscal year beginning July 1, 2006 (the transition year), the postemployment liability previously included in the governmental activities of the primary government was eliminated. This change resulted in a net increase of \$240.538 million on the Statement of Net Assets. Had this change been made in the prior year, the effect on governmental activities on the Statement of Activities would have been a decrease of \$24.096 million in expenses and an increase of \$216.442 million in beginning net assets. See Note 17 for more information on postemployment benefits.

A reevaluation of the recognition criteria used to report the State's liability for cleanup costs with the U.S. Environmental Protection Agency resulted in a decrease of \$8 million to beginning net assets of governmental activities reported on the Statement of Net Assets.

The Student Loan Purchase Program, reported as a business-type activity within the primary government (Student Assistance Programs, major enterprise fund), implemented a retroactive change in the method of amortizing deferred guarantor insurance premiums. This change in amortization, from straight line to an accelerated method, increased beginning net assets by \$2.479 million. Had this change been made in the prior year, the effect on business-type activities reported on the Statement of Activities would have been a decrease of \$333 thousand in expenses and a \$2.146 million increase in beginning net assets.

An adjustment was made to decrease the beginning net assets of the Investment Trust Fund reported on the Statement of Fiduciary Net Assets by \$322.050 million. In the prior year, certain deposits by third party trustees on behalf of the State and its component units were treated as deposits of external participants and reported in the Investment Trust Fund. Under generally accepted accounting

principles, those deposits should have been treated as deposits of internal participants and excluded from the presentation. See Note 4 for additional information about the Investment Trust Fund.

An adjustment was made to increase beginning net assets of Utah State University (major component unit) by \$2.163 million for capital assets that were inadvertently deleted in prior years.

GASB Statement 46, *Net Assets Restricted by Enabling Legislation Disclosures—an amendment of GASB Statement No. 34* was early implemented for the fiscal year ended June 30, 2005. As a result, a disclosure related to restricted net assets was added. Implementing this Statement did not result in any other reporting changes. The change is reflected in Note 11.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments for the primary government and its discrete component units are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council. However, the Act also permits certain funds that have a long-term perspective to make investments of a long-term nature, such as equities and bond mutual funds. In the primary government these are the Tobacco Endowment (special revenue fund), Trust Lands (permanent fund), Employers' Reinsurance Trust (private purpose trust), and Utah Educational Savings Plan Trust (private purpose trust). In the component units it is the college and university funds from gifts, federal or private grants, and the corpus of funds functioning as endowments. Exempt from the Act in the primary government is the Utah Retirement Systems (pension trust funds). The discrete component units exempt from the Act are Utah Housing Corporation and Public Employees Health Program.

A. PRIMARY GOVERNMENT

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor

are they required to be by state statute. The deposits for the primary government at June 30, 2005, were \$245.519 million. Of these, \$242.855 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

The Act permits investing according to the rules of the Money Management Council for certain funds with a long-term perspective and funds acquired by gift, private grant, and the corpus of funds functioning as endowments. The Council's Rule 2 allows the State to invest these funds in any of the above investments or in any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

The primary government's investments at June 30, 2005, are presented below. All investments, except those of the Utah Retirement Systems (pension trust funds), are presented by investment type and debt securities are presented by maturity. The Utah Retirement Systems are presented consistent with their separately issued financial statements by investment type.

Primary Government Investments
(except Pension Trust Funds)
(Expressed in Thousands)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U.S. Treasuries	\$ 4,707	\$ 57	\$ 4,650	\$ —	\$ —
U.S. Agencies	2,360,343	2,341,573	16,095	—	2,675
Corporate Debt	3,915,973	3,915,668	305	—	—
Negotiable Certificates of Deposit	302,632	302,632	—	—	—
Money Market Mutual Fund	193,578	193,578	—	—	—
Commercial Paper	131,365	131,365	—	—	—
Bond Mutual Fund *	380,930	—	—	380,930	—
Repurchase Agreements	27,735	27,735	—	—	—
	<u>7,317,263</u>	<u>\$ 6,912,608</u>	<u>\$ 21,050</u>	<u>\$ 380,930</u>	<u>\$ 2,675</u>
<u>Other Investments</u>					
Equity Securities	7,318				
Equity Mutual Funds Securities:					
Domestic	1,074,533				
International	146,423				
U.S. Unemployment Trust Pool	443,224				
Real Estate Held for Investment Purposes...	1,103				
Real Estate Joint Ventures	257				
Component Units Investment in Primary Government's Investment Pool	(727,302)				
Total	<u>\$ 8,262,819</u>				

* At June 30, 2005, the bond mutual fund had an average effective maturity of 6.8 years.

The majority of the primary government's corporate debt securities are variable-rate securities, which adjust periodically to the prevailing market interest rates. Because these securities frequently reprice, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of \$2.1 billion owned by the primary government reset periodically and have a maximum maturity out to four years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and on a quarterly basis may be called or stepped up; if held to maturity they will mature at par. In the current rising interest rate environment, some of these adjustable rate securities have not kept pace with the increase in rates as reflected in their fair market

values. In the table above, U.S. agency securities are presented according to the length of time until the next reset date rather than the stated maturity.

In addition, significant funds with a long-term investment perspective have the following mix of investments (percentages are of the fund's total investments). Utah Educational Savings Plan Trust (private purpose trust) – \$810.284 million, 79.6 percent, in domestic equity mutual fund securities; \$156.217 million, 15.3 percent, in bond mutual fund; \$52.007 million, 5.1 percent, in international equity mutual fund securities. Trust Lands (permanent fund) – \$250.449 million, 44.3 percent, in domestic equity mutual fund securities; \$220.329 million, 39.0 percent, in bond mutual fund; and \$94.416 million, 16.7 percent, in international equity mutual fund securities.

Pension Trust Funds Investments**At December 31, 2004***(Expressed in Thousands)*

<u>Investment Type</u>	<u>Fair Value</u>
Debt Securities – Domestic	\$ 2,597,950
Debt Securities – International	525,742
Equity Securities – Domestic	6,099,679
Equity Securities – International	3,362,805
Short-term Securities Pools	1,054,509
Mortgage Loans:	
Collateralized Loans	23
Real Estate Notes	6,635
Real Estate	453,046
Real Estate Joint Ventures	1,220,159
Alternative Investments (Venture Capital)	552,533
Guaranteed Investment Contracts	50,233
Equity Securities – Domestic (Pooled)	308,597
Mutual Fund – International	187,831
Mutual Fund – Balanced	273,184
Investments Held by Broker-dealers	
Under Securities Lending Program:	
U.S. Government and Agency Securities	915,722
Corporate Debt Securities – Domestic	70,500
Debt Securities – International	354,886
Equity Securities – Domestic	956,474
Equity Securities – International	12,070
Total Investments	19,002,578
Securities Lending Collateral Pool	2,369,152
Total Pension Trust Funds	<u>\$ 21,371,730</u>

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The primary government's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51–7–11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270–365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Funds that follow Rule 2 of the Money Management Council may not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

The Utah Retirement Systems (URS) manage their exposure to fair value loss arising from increasing interest rates by complying with the following policy:

- For domestic debt securities managers, an individual debt securities investment manager's portfolio shall have an effective duration between 75 and 125 percent of the effective duration of the appropriate index.
- The international debt securities investment managers shall maintain an effective duration of their portfolio between 50 and 150 percent of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The URS compares an investment's effective duration against the Lehman Brothers Aggregate Index for domestic debt securities and the Lehman Brothers Global Aggregate Index for international debt securities. The index range at December 31, 2004, was 3.26 – 5.43 for domestic debt securities and 2.53 – 7.59 for international debt securities. At December 31, 2004, no individual debt security investment manager's portfolio was outside of the policy guidelines. At December 31, 2004, the following tables show the investments by investment type, amount and the effective weighted duration rate.

Pension Trust Funds
Debt Securities Investments, Domestic
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration
Asset backed securities	\$ 139,996	1.43
Commercial mortgage backed securities	81,393	3.54
Corporate bonds	539,756	4.51
Corporate convertible bonds	2,174	0.15
Fixed income options, Futures, and swaps	402,088	5.63
Fixed income derivatives		
offsets	(403,142)	NA
Government agencies	85,249	3.04
Government bonds	737,099	6.30
Government mortgage backed securities	1,005,695	3.27
Index linked government bonds	142,595	8.19
Municipal/provincial bonds	2,856	8.92
Non-government backed C.M.O.'s	134,976	3.03
Other fixed income	2,999	NA
Pooled debt securities	710,436	NA
Total debt securities investments, domestic	<u>\$ 3,584,170</u>	4.66

Pension Trust Funds
Debt Securities Investments, International
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration
Asset backed securities	\$ 11,572	3.86
Commercial mortgage backed securities	10,061	3.49
Corporate bonds	342,467	5.01
Government agencies	19,802	4.31
Government bonds	424,765	5.50
Government mortgage backed securities	40,556	3.25
Index linked government bonds	1,625	0.00
Municipal/provincial bonds	6,412	6.46
Non-government backed C.M.O.'s	23,368	10.52
Total debt securities investments, international	<u>\$ 880,628</u>	5.35

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The primary government, with the exception of the Utah Retirement Systems (URS), follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The primary government's rated debt investments as of June 30, 2005, with the exception of URS, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Primary Government Rated Debt Investments
(except Pension Trust Funds)
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings				
		AAA	AA	A	BBB	BB
U.S. Agencies	\$ 2,360,343	\$ 2,188,005	\$ —	\$ 170,665	\$ —	\$ —
Corporate Debt	\$ 3,915,973	\$ 211,623	\$ 709,649	\$ 2,685,486	\$ 271,282	\$ 37,933
Negotiable Certificates of Deposit	\$ 302,632	\$ —	\$ —	\$ 272,735	\$ 29,897	\$ —
Money Market Mutual Fund	\$ 193,578	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial Paper	\$ 131,365	\$ —	\$ —	\$ —	\$ —	\$ —
Bond Mutual Fund	\$ 380,930	\$ —	\$ —	\$ —	\$ —	\$ —
Repurchase Agreements – Underlying:						
U.S. Agencies	\$ 17,715	\$ 17,715	\$ —	\$ —	\$ —	\$ —

Continues Below

Debt Investments	Quality Ratings	
	A1 *	Unrated
U.S. Agencies	\$ —	\$ 1,673
Corporate Debt	\$ —	\$ —
Negotiable Certificates of Deposit	\$ —	\$ —
Money Market Mutual Fund	\$ —	\$ 193,578
Commercial Paper	\$ 131,365	\$ —
Bond Mutual Fund	\$ —	\$ 380,930
Repurchase Agreements – Underlying:		
U.S. Agencies	\$ —	\$ —

* A1 is Commercial Paper rating

The Utah Retirement Systems (URS) expects its domestic debt securities investment managers to maintain diversified portfolios by sector using the following guidelines:

- U.S. government and agency securities — no restriction.
- Total portfolio quality shall maintain a minimum overall rating of “A” (S&P) or equivalent rating.
- Securities with a quality rating of BBB- and below are considered below investment grade. No more than 5 percent of an investment manager’s assets at market with a single issuer of 1 percent of the total portfolio can be below investment grade.
- Upon approval, a domestic debt securities investment manager may invest up to 10 percent of the portfolio in non-U.S. dollar denominated bonds.

Upon approval, the international debt securities investment managers may hold up to 25 percent of the market value of their portfolios in securities rated below investment grade (S&P index BBB- or Moody’s index Baa3). The remaining assets shall have on average an investment grade rating.

The weighted quality rating average of the domestic debt securities, excluding pooled investments, at December 31, 2004, was AA and the fair value of below grade investments was \$18.102 million or 0.6 percent of the domestic portfolio. The weighted quality rating average of the international debt securities investments, at December 31, 2004, was AA- and the fair value of below grade investments was \$44.467 million or 5.79 percent of the international portfolio.

The following table presents the URS ratings as of December 31, 2004:

Pension Trust Funds
Debt Securities Investments at Fair Value
(Expressed in Thousands)

Quality Rating	Domestic	International	Total
AAA	\$ 918,837	\$ 426,690	\$ 1,345,527
AA+	16,022	7,326	23,348
AA	17,510	7,866	25,376
AA-	58,679	69,349	128,028
A+	57,510	11,851	69,361
A	69,726	34,696	104,422
A-	47,167	43,636	90,803
BBB+	44,011	31,646	75,657
BBB	77,201	41,823	119,024
BBB-	79,349	41,267	120,616
BB+	13,946	2,452	16,398
BB-	3,148	668	3,816
B+	—	80	80
NR	1,008	—	1,008
Total credit risk debt securities	1,404,114	719,350	2,123,464
U.S. Government and Agencies**	1,409,587	49,154	1,458,741
Pooled investments*	770,469	112,124	882,593
Total debt securities investments	\$ 3,584,170	\$ 880,628	\$ 4,464,798

* Ratings of pooled investments were unavailable.

** Approximately 54 percent of this category is debt securities of U.S. Agencies rated AAA or equivalent.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The primary government does not have a formal policy for custodial credit risk.

The primary government’s investments at June 30, 2005, except those of the Utah Retirement Systems, were held by the State or in the State’s name by the State’s custodial banks; except \$27.735 million of repurchase agreements where the underlying securities were uninsured and held by the investment’s counterparty, not in the name of the State.

At December 31, 2004, the Utah Retirement Systems (URS) debt securities investments were registered in the name of URS and were held in the possession of the URS custodial bank, The Northern Trust Company.

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

Except for the Utah Retirement Systems (pension trust funds), the primary government’s policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. Funds that follow Rule 2 of the Money Management Council are limited to investments in equity securities and fixed income corporate securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

The primary government had debt securities investments at June 30, 2005, with more than 5 percent of the total investments in securities of the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments represented 20.2 percent and 11.5 percent, respectively, of investments subject to concentration of credit risk.

The Utah Retirement Systems debt securities investments had no single issuer investments that exceed their portfolio investment guidelines by sector and by issuer as follows:

- AAA/Aaa Debt Securities — no more than 5 percent of an investment manager’s assets at market with a single issuer.
- AA/Aa Debt Securities — no more than 4 percent of an investment manager’s assets at market with a single issuer.
- A/A Debt Securities — no more than 3 percent of an investment manager’s assets at market with a single issuer.
- BBB/Baa Debt Securities — no more than 2 percent of an investment manager’s assets at market with a single issuer.
- For Debt Securities — no individual holding shall constitute more than 10 percent of the market value of outstanding debt of a single issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.

- For Domestic Equity Securities — no more than 4 percent of an investment manager's assets at market with a single issuer.
- For International Equity Securities — no more than 8 percent of an investment manager's assets at market with a single issuer.

Foreign Currency Risk—Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The primary government, except the Utah Retirement Systems (pension trust funds), does not have a formal policy to limit foreign currency risk.

The Utah Educational Savings Plan Trust (private purpose trust) has \$52.007 million and the Trust Lands (permanent fund) has \$94.416 million invested in international equity funds. As such, no currency denomination is presented.

The Utah Retirement Systems (URS) manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

Risk of loss arises from changes in currency exchange rates. The URS exposure to foreign currency risk is presented on the following table.

Pension Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
At December 31, 2004
(Expressed in Thousands)

Currency	Short Term	Debt	Equity	Total
Argentine peso	\$ —	\$ 195	\$ 3,105	\$ 3,300
Aruban guilder	—	1,616	—	1,616
Australian dollar	(4,745)	3,084	48,774	47,113
Brazilian real	—	—	14,507	14,507
Bulgarian lev	—	300	—	300
Canadian dollar	340	10,018	46,570	56,928
Cayman Islands dollar	—	9,380	1,318	10,698
Chilean peso	—	1,353	576	1,929
Danish krone	—	13,422	22,960	36,382
El Salvador colon	—	—	347,801	347,801
Estonia kroon	—	—	3,077	3,077
Ethiopian birr	17,135	—	546,097	563,232
Euro	—	229,815	641,597	871,412
Hong Kong dollar	1,251	—	31,919	33,170
Indian rupee	—	—	5,276	5,276
Japanese yen	(1,084)	56,220	540,525	595,661
Kazakhstan tenge	—	581	374	955
Mexican peso	178	4,572	5,509	10,259
Netherlands Antillian guilder	—	58,191	167,557	225,748
New Jersey dollar	—	—	3,412	3,412
New Taiwan dollar	799	—	11,909	12,708
New Zealand dollar	73	1,865	6,216	8,154
Norwegian krone	—	2,421	9,962	12,383
Panamanian balboa	—	—	3,524	3,524
Poland zloty	—	1,637	—	1,637
Pound sterling	(51,688)	73,441	531,158	552,911
Qatari rial	—	252	—	252
Russian ruble	—	—	1,803	1,803
Singapore dollar	107	3,621	17,879	21,607
South African rand	—	—	1,444	1,444
South Korean won	—	4,176	48,710	52,886
Swedish krona	(367)	28,311	52,769	80,713
Swiss franc	—	—	242,598	242,598
Venezuelan bolivar	—	—	3,655	3,655
International equity mutual fund (various currencies)	—	—	187,830	187,830
Total Securities subject to foreign currency risk	(38,001)	504,471	3,550,411	4,016,881
United States dollars (securities held by international investment managers)	107,096	376,157	12,294	495,547
Total international investment securities	\$ 69,095	\$ 880,628	\$ 3,562,705	\$ 4,512,428

B. COMPONENT UNITS**Custodial Credit Risk—Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the component unit's deposits may not be recovered.

The component units follow the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the component units at June 30, 2005, were \$201,699 million. Of these, \$191,260 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The component units follow the applicable investing criteria

described above for the primary government, with the exception of Utah Housing Corporation and Public Employees Health Program which are exempt from the Money Management Act.

College and university funds from gifts, private grants, and the corpus of funds functioning as endowments are invested according to Rule 2 of the Money Management Council. As of May 2, 2005, State law changed allowing college and university endowment funds to be invested in accordance with the State Board of Regents default investment guidelines or in accordance with policies adopted by the institutions' board of trustees and approved by the State Board of Regents. For the period ending June 30, 2005, the State Board of Regents has required all institutions to continue investing endowment funds in accordance with Rule 2 of the Money Management Council.

The component units' investments at June 30, 2005, are presented below.

Component Units Investments
(Expressed in Thousands)

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1–5</u>	<u>6–10</u>	<u>11–20</u>	<u>More Than 20</u>
<u>Debt Securities</u>						
U.S. Treasuries.....	\$ 156,978	\$ 56,752	\$ 98,687	\$ 1,106	\$ 433	\$ —
Government National Mortgage Association.....	26	—	—	—	—	26
U.S. Agencies	468,682	79,015	209,725	18,524	154,096	7,322
Corporate Debt	45,096	11,413	11,625	17,115	1,325	3,618
Money Market Mutual Funds	213,831	208,065	508	5,258	—	—
Negotiable Certificates of Deposit.....	1,507	888	619	—	—	—
Municipal/Public Bonds	5,647	75	2,645	2,092	835	—
Repurchase Agreements.....	17,276	15,140	—	—	53	2,083
Guaranteed Investment Contracts	282,869	242,885	3,963	—	36,021	—
Bond Mutual Funds	17,512	—	13,062	4,450	—	—
Securities Lending Cash Collateral Pool	42,345	42,345	—	—	—	—
Utah Public Treasurer's Investment Fund.....	727,302	727,302	—	—	—	—
	<u>1,979,071</u>	<u>\$ 1,383,880</u>	<u>\$ 340,834</u>	<u>\$ 48,545</u>	<u>\$ 192,763</u>	<u>\$ 13,049</u>
<u>Other Investments</u>						
<u>Equity Securities:</u>						
Domestic	44,723					
International.....	386					
<u>Equity Mutual Funds Securities:</u>						
Domestic	274,725					
Mutual Fund – Real Estate.....	1,426					
Hedge Funds.....	42,925					
Venture Capital Funds.....	3,752					
Total.....	<u>\$ 2,347,008</u>					

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units' policy for managing interest rate risk is the same as described above for the primary government.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The component units' policy for reducing exposure to investment credit risk is the same as described above for the primary government. The component units' debt investments as of June 30, 2005, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Component Units Rated Debt Investments
(Expressed in Thousands)

<u>Debt Investments</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
U.S. Agencies	\$ 468,682	\$ 468,680	\$ —	\$ —	\$ —
Corporate Debt	\$ 45,096	\$ 2,065	\$ 1,036	\$ 20,606	\$ 15,619
Money Market Mutual Funds	\$ 213,831	\$ 15,794	\$ —	\$ —	\$ —
Negotiable Certificates of Deposit	\$ 1,507	\$ —	\$ —	\$ —	\$ —
Municipal/Public Bonds	\$ 5,647	\$ 5,647	\$ —	\$ —	\$ —
Guaranteed Investment Contracts	\$ 282,869	\$ —	\$ —	\$ —	\$ —
Bond Mutual Funds	\$ 17,512	\$ —	\$ —	\$ —	\$ —
Securities Lending Cash Collateral Pool	\$ 42,345	\$ —	\$ —	\$ —	\$ —
Utah Public Treasurer's Investment Fund	\$ 727,302	\$ —	\$ —	\$ —	\$ —
Repurchase Agreements – Underlying:					
U.S. Agencies	\$ 2,304	\$ 2,304	\$ —	\$ —	\$ —
Money Market Mutual Funds	\$ 14,919	\$ —	\$ —	\$ —	\$ —

Continues Below

<u>Debt Investments</u>	<u>Quality Ratings</u>	
	<u>BB</u>	<u>Unrated</u>
U.S. Agencies	\$ —	\$ 2
Corporate Debt	\$ 4,726	\$ 1,044
Money Market Mutual Funds	\$ —	\$ 198,037
Negotiable Certificates of Deposit	\$ —	\$ 1,507
Municipal/Public Bonds	\$ —	\$ —
Guaranteed Investment Contracts	\$ —	\$ 282,869
Bond Mutual Funds	\$ —	\$ 17,512
Securities Lending Cash Collateral Pool	\$ —	\$ 42,345
Utah Public Treasurer's Investment Fund	\$ —	\$ 727,302
Repurchase Agreements – Underlying:		
U.S. Agencies	\$ —	\$ —
Money Market Mutual Funds	\$ —	\$ 14,919

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the component units will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The component units do not have a formal policy for custodial credit risk.

The various component units' investments at June 30, 2005, were held by the component unit or in the name of the component unit by the component unit's custodial bank or trustee, except the following which were uninsured, were not registered in the name of the component unit, and were held by (expressed in thousands):

<u>Counterparty</u>	
U.S. Treasuries	\$ 99,962
U.S. Agencies	\$ 91,096
Corporate Debt	\$ 9
Repurchase Agreements	\$ 9,329

Counterparty's Trust Department or Agent

U.S. Agencies	\$ 8,016
Corporate Debt	\$ 11,570
Municipal/Public Bonds	\$ 266
Repurchase Agreements	\$ 7,290
Equity Securities	\$ 5,119

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for Utah Housing Corporation, the component units' policy for reducing this risk of loss is the same as described above for the primary government.

The Utah Housing Corporation places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in Trinity Guaranteed Investment Contracts, CDC Guaranteed Investment Contracts, the Federal National Mortgage Association, and Transamerica Guaranteed Investment Contracts. These investments are 15.30 percent, 10.09 percent, 8.97 percent, and 5.63 percent, respectively, of the Corporation's total investments.

C. Securities Lending

The Utah Retirement Systems (pension trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and

irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records. Corresponding liabilities for collateral received are recorded at the fair value.

At yearend, neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were \$2.31 billion and \$41.437 million, respectively, and the collateral received for those securities on loan was \$2.369 billion and \$42.894 million (includes \$538 thousand of non-cash collaterals), respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

D. Derivative Financial Instruments

Utah Retirement Systems

The Utah Retirement Systems (URS) (pension trust funds) invests in derivative financial investments as authorized by Board policy. The derivatives are reported at their fair values on the statement of net assets. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from the performance of some agreed upon benchmark. At December 31, 2004, URS had four types of derivative financial investments: futures, currency forwards, options, and swaps.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing URS's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At December 31, 2004, URS investments had the following futures balances (expressed in millions):

	Value Covered By Contract
Long-cash and cash equivalent futures	\$ 459.956
Long-equity futures	\$ 468.719
Short-equity futures	\$ (298.808)
Long-debt securities futures	\$ 539.312
Short-debt securities futures	\$ 136.170

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At December 31, 2004, URS investments included the following currency forwards balances (expressed in billions):

Currency forwards (<i>pending foreign exchange purchases</i>)	\$ 1.206
Currency forwards (<i>pending foreign exchange sales</i>)	\$ (1.218)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, URS receives a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, URS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At December 31, 2004, URS investments had the following options balances (expressed in thousands):

	Value Covered By Contract
Cash and cash equivalent purchased call options	\$ 933
Cash and cash equivalent purchased put options	\$ 400
Fixed income written put options	\$ (897)
Fixed income written call options	\$ (157)

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At the end of the year, URS had two different types of swap arrangements: interest rate swaps and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counter party who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed URS to convert their long term variable interest rate credit facility loans into fixed interest rate loans. The credit default swaps protects the rental cash flows on one of URS real estate investments in case the major tenant defaults on its lease contract. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. At December 31, 2004, URS investments had the following swap market value balances:

Utah Retirement Systems
Interest Rate Swaps
December 31, 2004
(Expressed in Thousands)

	Outstanding Notational Amount*	Interest Rate**	Maturity Date	Fair Value
<u>Interest Rate Swaps</u>				
Morgan Stanley Interest Rate Swap	\$ 32,600	5.162% – 3 month LIBOR	8/15/2015	\$ (897)
Morgan Stanley Interest Rate Swap	20,000	4.447% – LIBOR	10/20/2014	45
Morgan Stanley Interest Rate Swap	37,000	4.406% – LIBOR	11/01/2014	174
Morgan Stanley Interest Rate Swap	120,000	4.163% – LIBOR	12/01/2007	75
Morgan Stanley Interest Rate Swap	38,000	3.4675% – LIBOR	11/02/2007	55
Total	<u>\$ 247,600</u>			<u>\$ (548)</u>
<u>Credit Facility Swaps</u>				
Morgan Stanley Credit Default Swaps	<u>\$ 111,000</u>		9/29/2008	<u>\$ (1,166)</u>

* Base used to calculate interest

** London Interbank Offered Rate

Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit).

Objective — In order to protect against the potential of rising interest rates, the Corporation has entered into 50 separate pay-fixed, receive-variable interest rate swaps and one interest rate cap agreement as of June 30, 2005. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information

about each swap is included in the Corporation's separately issued financial statements.

Terms, Fair Values, and Credit Risk — The terms, including the fair values of the outstanding swaps as of June 30, 2005, are summarized below. The notional amounts of the swaps match the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Utah Housing Corporation
Interest Rate Swap and Cap Agreements
June 30, 2005
(Expressed in Thousands)

Outstanding Notational Amount	Issue Dates	Fixed Rate Paid by the Corporation	Variable Rate Received from Counterparty	Fair Values	Termination Dates
<u>Interest Rate Swap Agreements</u>					
\$ 79,910	2000–2002	4.640% to 7.760%	LIBOR* plus .15%	\$ (7,194)	2006–2021
462,220	2000–2005	3.939% to 5.610%	BMA** plus .27%	(47,259)	2021–2028
<u>\$ 542,130</u>				<u>\$ (54,453)</u>	
<u>Interest Rate Cap Agreements</u>					
\$ 1,955	2005	1.02%	Excess of BMA ** over 5.73%	<u>\$ (139)</u>	2027

* London Interbank Offered Rate

** The Bond Market Association Municipal Swap Index

Fair Values — Because interest rates have declined, all swaps had a negative fair value to the Corporation as of June 30, 2005. The negative fair values are a function of declining interest rates and the remaining term on the swap contracts. Because the coupons on the Corporation's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. However, bond proceeds were used to acquire fixed rate mortgage loans, which support the fixed payer rate on the swaps. Although these mortgage loans do have higher than current market interest rates, they have not been adjusted for fair value on the financial statements.

The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk — As of June 30, 2005, the Corporation was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Corporation would be exposed to credit risk in the amount of the derivatives' fair value. The Corporation executes swap transactions with two counterparties, Lehman Brothers Financial Products, Inc. and Lehman Brothers Derivative Products, Inc. Both counterparties are rated AAA/Aaa.

Basis Risk — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under Tax Risk/Cross-over.

Tax Risk / Cross-over — Nineteen of the Corporation's BMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and BMA to exceed 75 percent for a continuous period of 180 days. If these two triggers occur, the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. In addition, two of the Corporation's BMA based Cross-over Swaps are also exposed to basis risk if the LIBOR rate is 3.5 percent or greater. When the LIBOR rate is 3.5 percent or greater, the provider will pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. As of June 30, 2005, no "Tax Event" or "Cross-over Event" has occurred.

Termination Risk — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

Rollover Risk — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2005, the Corporation's swap termination dates ranged from 7 to 24 years prior to the maturity dates of the associated debt.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (*Utah Code* Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants along with the portfolio statistics for the fiscal year ended June 30, 2005, are as follows:

Public Treasurer's Investment Fund**Statement of Net Assets****June 30, 2005***(Expressed in Thousands)***Assets**

Cash and Cash Equivalents	\$ 328,066
Investments	6,570,300
Interest Receivable	28,139
Net Assets	<u>\$ 6,926,505</u>

Net Assets Consist of:

External Participant Account Balances	\$ 3,989,260
Internal Participant Account Balances:	
Primary Government	2,189,976
Component Units	726,936
Undistributed Reserves and Unrealized Gains/Losses	20,333
Net Assets	<u>\$ 6,926,505</u>

Participant Account Balance Net Asset Valuation Factor	<u>1.000154</u>
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Public Treasurer's Investment Fund**Statement of Changes in Net Assets****For the Fiscal Year Ended June 30, 2005***(Expressed in Thousands)***Additions**

Pool Participant Deposits	\$ 9,987,451
Investment Income:	
Investment Earnings	157,520
Fair Value Increases (Decreases)	(3,053)
Total Investment Income	154,467
Less Administrative Expenses	(142)
Net Investment Income	154,325
Total Additions	<u>10,141,776</u>

Deductions

Pool Participant Withdrawals	8,941,997
Earnings Distributions	158,440
Total Deductions	<u>9,100,437</u>
Net Increase From Operations	<u>1,041,339</u>

Net Assets

Beginning of Year	5,885,166
Net Assets – End of Year	<u>\$ 6,926,505</u>

**Public Treasurer's Investment Fund
Portfolio Statistics**

June 30, 2005

	Range of Yields	Weighted Average Maturity
Money Market Mutual Fund	3.02%	59 days
Certificates of Deposit.....	3.14% – 3.54%	33.58 days
U.S. Agencies	2.50% – 4.00%	66.04 days
Corporate Bonds and Notes.....	2.22% – 4.36%	58.33 days
Commercial Paper.....	3.09% – 3.41%	21.42 days

June 30, 2005

	Weighted Average Yield	Average Adjusted Maturity
Total Investment Fund.....	3.18%	56.89 days

Deposits and Investments

The following disclosure of deposits and investments is for the PTIF, which includes external and internal participants. These assets are also included in the Note 3 disclosures of deposits and investments for the primary government. To avoid duplication, some of the detailed information in Note 3 has not been repeated in this note.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the PTIF at June 30, 2005, were \$34.585 million. Of those, \$34.200 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The PTIF follows the Money Management Act by investing only in securities authorized in the Act. See Note 3 for information on authorized investments.

The PTIF investments at June 30, 2005, are presented below.

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the PTIF's deposits may not be recovered. The PTIF follows the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act.

Public Treasurer's Investment Fund Investments
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)	
		Less Than 1	1–5
<u>Debt Securities</u>			
U.S. Agencies	\$ 2,347,413	\$ 2,337,413	\$ 10,000
Corporate Bonds and Notes.....	3,912,705	3,912,705	—
Negotiable Certificates of Deposit ..	302,632	302,632	—
Money Market Mutual Fund	190,000	190,000	—
Commercial Paper.....	119,988	119,988	—
	<u>\$ 6,872,738</u>	<u>\$ 6,862,738</u>	<u>\$ 10,000</u>

The majority of the PTIF's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of \$2.1 billion of the PTIF reset periodically and have a maximum maturity out to four years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and may be called on a quarterly basis, or will mature at par if held to maturity. In the event that current market interest rates were to exceed the predetermined rates, the fair value of the securities would be impacted. Of the securities of this type held at June 30, 2005, none had predetermined interest rates below the current market rate. The above table reflects periodic interest rate adjustment dates that the securities can reasonably be expected to have market values that approximate their amortized cost values.

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PTIF's policy for managing interest rate risk is to comply with the State's Money Management Act. See Note 3 for information on requirements of the Act related to interest rate risk.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PTIF follows the Money Management Act as its policy for reducing exposure to investment credit risk. The PTIF's rated debt investments as of June 30, 2005, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Public Treasurer's Investment Fund Rated Debt Investments (Expressed in Thousands)

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
U.S. Agencies	\$ 2,347,413	\$ 2,176,748	\$ —	\$ 170,665	\$ —
Corporate Bonds and Notes.....	\$ 3,912,705	\$ 209,824	\$ 709,649	\$ 2,684,018	\$ 271,282
Negotiable Certificates of Deposit	\$ 302,632	\$ —	\$ —	\$ 272,735	\$ 29,897
Money Market Mutual Fund	\$ 190,000	\$ —	\$ —	\$ —	\$ —
Commercial Paper	\$ 119,988	\$ —	\$ —	\$ —	\$ —

Continues Below

<u>Rated Debt Investments</u>	<u>Quality Ratings</u>		
	<u>BB</u>	<u>A1 *</u>	<u>Not Rated</u>
U.S. Agencies	\$ —	\$ —	\$ —
Corporate Bonds and Notes.....	\$ 37,932	\$ —	\$ —
Negotiable Certificates of Deposit	\$ —	\$ —	\$ —
Money Market Mutual Fund	\$ —	\$ —	\$ 190,000
Commercial Paper	\$ —	\$ 119,988	\$ —

* A1 is Commercial Paper rating

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The PTIF's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5 percent of the total

dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies. The PTIF had debt securities investments at June 30, 2005, with more than 5 percent of the total investments in Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. These investments represented 20.2 percent and 11.4 percent, respectively, of total investments.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2005, consisted of the following (in thousands):

	Accounts Receivable					Notes/ Mortgages
	Federal	Customer	Other	Interest	Taxes	
Governmental Activities:						
General Fund	\$ 189,755	\$ 228,267	\$ 534	\$ 42	\$ 266,523	\$ 10,227
Uniform School Fund	36,599	1,354	1	—	465,814	3,783
Transportation Fund.....	37,624	118	6,386	—	59,070	376
Centennial Highway Fund	18,946	—	—	—	776	—
Trust Lands	—	—	17,115	1,478	—	4,800
Nonmajor Funds	677	2,463	—	81	—	155
Internal Service Funds	—	2,602	—	—	—	—
Adjustments:						
Fiduciary Funds	—	—	160	—	—	—
Total Receivables.....	<u>283,601</u>	<u>234,804</u>	<u>24,196</u>	<u>1,601</u>	<u>792,183</u>	<u>19,341</u>
Less Allowance for Uncollectibles:						
General Fund	—	(58,233)	—	—	(16,651)	(1,276)
Uniform School Fund	—	—	—	—	(81,127)	—
Transportation Fund.....	—	—	(200)	—	(841)	—
Centennial Highway Fund	—	—	—	—	(48)	—
Internal Service Funds	—	(131)	—	—	—	—
Receivables, net.....	<u>\$ 283,601</u>	<u>\$ 176,440</u>	<u>\$ 23,996</u>	<u>\$ 1,601</u>	<u>\$ 693,516</u>	<u>\$ 18,065</u>
Current Receivables.....	\$ 283,601	\$ 154,180	\$ 7,671	\$ 1,601	\$ 652,140	\$ 6,228
Noncurrent Receivables	—	22,260	16,325	—	41,376	11,837
Total Receivables, net	<u>\$ 283,601</u>	<u>\$ 176,440</u>	<u>\$ 23,996</u>	<u>\$ 1,601</u>	<u>\$ 693,516</u>	<u>\$ 18,065</u>
Business-type Activities:						
Student Assistance Programs	\$ 17,872	\$ 462	\$ —	\$ 15,029	\$ —	\$ 1,457,267
Unemployment Compensation	119	87,057	—	—	—	—
Water Loan Programs	—	133	—	8,393	—	475,026
Nonmajor Funds	—	6,776	238	3,447	—	251,987
Total Receivables.....	<u>17,991</u>	<u>94,428</u>	<u>238</u>	<u>26,869</u>	<u>—</u>	<u>2,184,280</u>
Less Allowance for Uncollectibles:						
Student Assistance Programs	—	—	—	—	—	(2,981)
Unemployment Compensation	—	(11,764)	—	—	—	—
Water Loan Programs	—	—	—	—	—	—
Receivables, net.....	<u>\$ 17,991</u>	<u>\$ 82,664</u>	<u>\$ 238</u>	<u>\$ 26,869</u>	<u>\$ —</u>	<u>\$ 2,181,299</u>

Accounts receivable balances are an aggregation of amounts due from the federal government, customers, and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2005, were \$1.251 billion for major component units and \$71.865 million for nonmajor component units, net of an allowance for doubtful accounts of \$45.46 million and \$3.737 million, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2005, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund.....	\$ 70,550	\$ 185,159	\$ 25,899	\$ 70,822	\$ 9,121	\$ —	\$ 361,551
Uniform School Fund.....	2,903	1,548	5,087	32,625	17,243	—	59,406
Transportation Fund.....	8,308	168	51,983	48,074	3,602	—	112,135
Centennial Highway Fund.....	—	—	162	—	—	—	162
Trust Lands Permanent Fund	—	—	362	—	—	—	362
Nonmajor Funds.....	69	—	20,041	134	—	37,505	57,749
Internal Service Funds.....	2,301	—	8,562	212	—	10	11,085
Adjustments:							
Fiduciary Funds.....	—	—	—	1,148	—	—	1,148
Other	—	—	—	—	—	1,637	1,637
Total Governmental Activities.....	<u>\$ 84,131</u>	<u>\$ 186,875</u>	<u>\$ 112,096</u>	<u>\$ 153,015</u>	<u>\$ 29,966</u>	<u>\$ 39,152</u>	<u>\$ 605,235</u>
Business-type Activities:							
Student Assistance Programs.....	\$ 1,000	\$ —	\$ 7,955	\$ 1,570	\$ —	\$ 6,021	\$ 16,546
Unemployment Compensation	—	1,271	—	13	—	—	1,284
Water Loan Programs.....	—	—	173	—	—	—	173
Nonmajor Funds.....	1,539	—	10,402	—	—	183	12,124
Adjustments:							
Fiduciary Funds.....	—	—	—	123	—	—	123
Total Business-type Activities	<u>\$ 2,539</u>	<u>\$ 1,271</u>	<u>\$ 18,530</u>	<u>\$ 1,706</u>	<u>\$ 0</u>	<u>\$ 6,204</u>	<u>\$ 30,250</u>

Accounts payable and accrued liability balances are an aggregation of amounts due to: (1) state employees for salaries/benefits; (2) service providers for childcare, job services and health services; (3) vendors and miscellaneous suppliers; (4) local and federal governments for services; (5) individuals and others as a result of tax overpayments; and (6) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

NOTE 7. INTERFUND BALANCES AND LOANS**Interfund Balances**

Interfund balances at June 30, 2005, consisted of the following (in thousands):

Due to General Fund from:

Uniform School Fund	\$ 263
Transportation Fund	1,519
Trust Lands Fund	25
Nonmajor Governmental Funds	696
Unemployment Compensation Fund	3,921
Water Loan Programs	82
Nonmajor Enterprise Funds	8,297
Internal Service Funds	4,335
Fiduciary Funds	149

Total due to General Fund from other funds \$ 19,287

Due to Uniform School Fund from:

General Fund	549
Trust Lands Fund	31
Unemployment Compensation Fund	234
Nonmajor Enterprise Funds	1,533
Internal Service Funds	48

Total due to Uniform School Fund from other funds \$ 2,395

Due to Transportation Fund from:

General Fund	137
Uniform School Fund	1
Nonmajor Governmental Funds	17
Nonmajor Enterprise Funds	5
Internal Service Funds	185

Total due to Transportation Fund from other funds \$ 345

Due to Trust Lands Fund from

Nonmajor Enterprise Funds	\$ 1,659
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Due to Nonmajor Governmental Funds from:

General Fund	931
Nonmajor Governmental Funds	30
Nonmajor Enterprise Funds	459
Internal Service Funds	250
Fiduciary Funds	3

Total due to Nonmajor Governmental Funds from other funds \$ 1,673

Due to Water Loan Programs from:

General Fund	10
Trust Lands Fund	22

Total due to Water Loan Programs from other funds \$ 32

Due to Nonmajor Enterprise Funds from:

General Fund	\$ 621
Uniform School Fund	19
Transportation Fund	126
Nonmajor Governmental Funds	8,839
Water Loan Programs	5
Internal Service Funds	1

Total due to Nonmajor Enterprise Funds from other funds \$ 9,611

Due to Internal Service Funds from:

General Fund	8,942
Uniform School Fund	368
Transportation Fund	2,546
Nonmajor Governmental Funds	1,399
Nonmajor Enterprise Funds	139
Internal Service Funds	187
Fiduciary Funds	8

Total due to Internal Service Funds from other funds \$ 13,589

Due to Fiduciary Funds from:

General Fund	1,133
Transportation Fund	5
Trust Lands Fund	10
Nonmajor Enterprise Funds	123

Total due to Fiduciary Funds from other funds \$ 1,271

Total Due to/Due froms \$ 49,862

These balances resulted from the time lags between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2005, consisted of the following (in thousands):

Payable to General Fund from

Internal Service Funds	\$ 32,520
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Payable to Uniform School Fund from

Internal Service Fund	13
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Payable to Nonmajor Enterprise Funds from

Internal Service Funds	40
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Total Interfund Loans Receivable/Payable \$ 32,573

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance payable to the General Fund from Internal Service Funds of \$32.520 million includes \$14.893 million that is not expected to be repaid within one year.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	\$ 721,635	\$ 22,704	\$ (362)	\$ 743,977
Infrastructure	7,262,468	315,728	(32,847)	7,545,349
Construction-In-Progress	683,140	398,312	(487,353)	594,099
Total Capital Assets not being Depreciated	<u>8,667,243</u>	<u>736,744</u>	<u>(520,562)</u>	<u>8,883,425</u>
Capital Assets being Depreciated:				
Buildings and Improvements	1,021,457	157,622	(1,087)	1,177,992
Infrastructure	30,873	2,338	—	33,211
Machinery and Equipment	431,694	37,879	(22,598)	446,975
Total Capital Assets being Depreciated	<u>1,484,024</u>	<u>197,839</u>	<u>(23,685)</u>	<u>1,658,178</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(337,815)	(30,687)	500	(368,002)
Infrastructure	(4,573)	(1,433)	—	(6,006)
Machinery and Equipment	(284,406)	(40,626)	18,078	(306,954)
Total Accumulated Depreciation	<u>(626,794)</u>	<u>(72,746)</u>	<u>18,578</u>	<u>(680,962)</u>
Total Capital Assets being Depreciated, Net	<u>857,230</u>	<u>125,093</u>	<u>(5,107)</u>	<u>977,216</u>
Capital Assets, Net	<u>\$ 9,524,473</u>	<u>\$ 861,837</u>	<u>\$ (525,669)</u>	<u>\$ 9,860,641</u>
Business-type Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	\$ 17,235	\$ 5,501	\$ (422)	\$ 22,314
Construction-In-Progress	—	479	—	479
Total Capital Assets not being Depreciated	<u>17,235</u>	<u>5,980</u>	<u>(422)</u>	<u>22,793</u>
Capital Assets being Depreciated:				
Buildings and Improvements	44,833	447	(1,456)	43,824
Infrastructure	—	204	—	204
Machinery and Equipment	11,943	2,418	(470)	13,891
Total Capital Assets being Depreciated	<u>56,776</u>	<u>3,069</u>	<u>(1,926)</u>	<u>57,919</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(7,018)	(1,053)	16	(8,055)
Infrastructure	—	(49)	—	(49)
Machinery and Equipment	(9,267)	(1,442)	255	(10,454)
Total Accumulated Depreciation	<u>(16,285)</u>	<u>(2,544)</u>	<u>271</u>	<u>(18,558)</u>
Total Capital Assets being Depreciated, Net	<u>40,491</u>	<u>525</u>	<u>(1,655)</u>	<u>39,361</u>
Capital Assets, Net	<u>\$ 57,726</u>	<u>\$ 6,505</u>	<u>\$ (2,077)</u>	<u>\$ 62,154</u>

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and “transferred” to the colleges and universities. For fiscal year 2005, \$18.536 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building “transfers” are reported as higher education expenses of governmental activities and as program revenues of component units.

Amounts in the beginning balances column of governmental activities have been adjusted by a net increase of \$2.724 million as follows: Buildings and improvements were increased by \$14.238 million; machinery and equipment was decreased by \$0.7 million. The related accumulated depreciation was increased by \$10.814 million. These adjustments corrected beginning balances as described in Note 2.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government.....	\$ 28,057
Human Services and Youth Corrections	436
Corrections, Adult.....	695
Public Safety.....	3,086
Courts	791
Health and Environmental Quality	1,603
Employment and Family Services	1,217
Natural Resources.....	6,042
Community and Economic Development	142
Business, Labor, and Agriculture	630
Public Education.....	291
Transportation.....	9,541
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided.....	20,216
Total.....	<u>\$ 72,747</u>

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets not being Depreciated:						
Land and Other Assets	\$ 1,472	\$ —	\$ 53,287	\$ 12,783	\$ 57,296	\$ 124,838
Construction-In-Progress	—	—	86,659	38,935	11,889	137,483
Total Capital Assets not being Depreciated ..	<u>1,472</u>	<u>—</u>	<u>139,946</u>	<u>51,718</u>	<u>69,185</u>	<u>262,321</u>
Capital Assets being Depreciated:						
Building and Improvements.....	4,990	—	1,121,664	437,308	963,325	2,527,287
Infrastructure	—	—	131,765	—	37,536	169,301
Machinery and Equipment.....	1,287	4,274	629,567	162,305	162,003	959,436
Total Capital Assets being Depreciated	<u>6,277</u>	<u>4,274</u>	<u>1,882,996</u>	<u>599,613</u>	<u>1,162,864</u>	<u>3,656,024</u>
Less Total Accumulated Depreciation	<u>(1,036)</u>	<u>(3,349)</u>	<u>(928,162)</u>	<u>(265,465)</u>	<u>(430,572)</u>	<u>(1,628,584)</u>
Total Capital Assets being Depreciated, Net.	<u>5,241</u>	<u>925</u>	<u>954,834</u>	<u>334,148</u>	<u>732,292</u>	<u>2,027,440</u>
Discretely Presented Component Units –						
Capital Assets, Net	<u>\$ 6,713</u>	<u>\$ 925</u>	<u>\$ 1,094,780</u>	<u>\$ 385,866</u>	<u>\$ 801,477</u>	<u>\$ 2,289,761</u>

The State had long-term construction project commitments totaling \$283.718 million at June 30, 2005. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
02156050	State Capitol Restoration.....	\$ 138,196
02032750	U of U Marriott Library Renovation.....	51,059
03200770	USU – New West Student Housing	21,792
01009750	U of U – Moran Eye Center Ph II.....	17,415
02029770	USU – New Merrill Library	6,401
02026300	New Ogden Regional Center	6,247
01284750	U of U – John & Marva Warnock Building	6,228
04150620	CEU San Juan Library & Health Sciences Building.....	4,782
02243750	U of U – New Museum of Natural History.....	3,542
02042750	U of U – Health Sciences Education Building.....	2,685
03236790	UVSC – Energy Improvements	1,704
04256100	Draper Prison – Vocational Training Center	1,332
04024220	DATC – Roy & Elizabeth Simmons Entrepreneurial Center.....	1,315
04171700	Snow College – Upgrade Boiler	1,155
97097050	State Capitol Remodel Design.....	1,027
—	All Others	18,838
	Total Commitments	<u>\$ 283,718</u>

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases, that in substance are purchases, are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were \$1.971 million in principal and \$833 thousand in interest for fiscal year 2005. The

historical cost and accumulated depreciation of the primary government's assets acquired through capital leases were \$26.257 million and \$7.586 million, respectively, as of June 30, 2005.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2005 were \$25.321 million for the primary government and \$18.635 million for component units. For fiscal year 2004, the operating lease expenditures were \$24.686 million for the primary government and \$16.595 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2005, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

Fiscal Year	Operating Leases			Capital Leases		
	Primary Government	Component Units	Total	Primary Government	Component Units	Total
2006	\$ 21,221	\$ 29,631	\$ 50,852	\$ 2,518	\$ 15,474	\$ 17,992
2007	16,616	27,334	43,950	2,548	13,122	15,670
2008	12,278	25,507	37,785	2,611	11,725	14,336
2009	8,951	23,404	32,355	2,186	24,085	26,271
2010	4,284	18,662	22,946	2,246	6,578	8,824
2011–2015	8,855	81,354	90,209	8,114	33,256	41,370
2016–2020	5,338	54,593	59,931	6,586	4,952	11,538
2021–2025	1,573	49,805	51,378	4,198	3,329	7,527
2026–2030	9	88	97	47	—	47
Total Future Minimum Lease Payments	<u>\$ 79,125</u>	<u>\$ 310,378</u>	<u>\$ 389,503</u>	31,054	112,521	143,575
Less Amounts Representing Interest				(10,123)	(21,382)	(31,505)
Present Value of Future Minimum Lease Payments	<u>\$ 20,931</u>			<u>\$ 20,931</u>	<u>\$ 91,139</u>	<u>\$ 112,070</u>

NOTE 10. LONG-TERM LIABILITIES**A. Changes in Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2005, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities (Expressed in Thousands)					
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 1,510,160	\$ 140,635	\$ (136,285)	1,514,510	\$ 137,120
State Building Ownership Authority					
Lease Revenue Bonds	335,941	42,622	(69,665)	308,898	15,672
Net Unamortized Premiums	108,594	12,110	(19,309)	101,395	—
Deferred Amount on Refunding	(26,966)	(2,102)	3,707	(25,361)	—
Capital Leases (Note 9)	22,902	—	(1,971)	20,931	1,287
Contracts Payable	8,000	527	—	8,527	304
Compensated Absences (Notes 1 and 17)	139,594	59,813	(59,378)	140,029	65,531
Claims	40,423	11,250	(7,000)	44,673	11,223
Total Governmental Long-term Liabilities	<u>\$ 2,138,648</u>	<u>\$ 264,855</u>	<u>\$ (289,901)</u>	<u>\$ 2,113,602</u>	<u>\$ 231,137</u>
Business-type Activities					
Revenue Bonds	\$ 1,398,520	\$ 151,080	\$ (4,770)	\$ 1,544,830	\$ 144,920
State Building Ownership Authority					
Lease Revenue Bonds	23,330	13,347	(6,005)	30,672	1,213
Net Unamortized Premiums	237	929	(105)	1,061	—
Deferred Amount on Refunding	—	(492)	28	(464)	—
Claims and Uninsured Liabilities	8,124	140,533	(142,632)	6,025	3,687
Arbitrage Liability (Note 1)	61,766	4,995	(350)	66,411	2,103
Total Business-type Long-term Liabilities	<u>\$ 1,491,977</u>	<u>\$ 310,392</u>	<u>\$ (153,834)</u>	<u>\$ 1,648,535</u>	<u>\$ 151,923</u>
Component Units					
Revenue Bonds	\$ 1,570,060	\$ 433,753	\$ (259,069)	\$ 1,744,744	\$ 137,588
Net Unamortized Premiums/(Discounts)	677	(1,256)	(185)	(764)	(68)
Capital Leases/Contracts Payable (Notes 9 and 10)	75,154	34,282	(12,714)	96,722	13,067
Notes Payable	42,999	4,902	(4,045)	43,856	2,911
Claims	102,706	486,207	(478,172)	110,741	66,041
Leave/Termination Benefits (Note 1)	71,481	45,992	(41,719)	75,754	19,321
Total Component Unit Long-term Liabilities	<u>\$ 1,863,077</u>	<u>\$ 1,003,880</u>	<u>\$ (795,904)</u>	<u>\$ 2,071,053</u>	<u>\$ 238,860</u>

Compensated absences of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

Postemployment benefits of the governmental activities were eliminated resulting in a reduction of the beginning governmental long-term liabilities of \$240.538 million. In preparation of implementing GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* for the fiscal year beginning July 1, 2006 (the transition year), the postemployment liability previously included in the governmental activities of the primary government was eliminated. See Note 2.

The long-term liability, contracts payable, was added to governmental activities resulting in an \$8 million increase to the

beginning balance column above. This beginning balance adjustment was due to the reevaluation of a general long-term liability of the primary government. See Note 2.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2005, the State had \$19.9 million and \$32.4 million of authorized but unissued general obligation building and highway bond authorizations remaining, respectively.

During fiscal year 2005, the State issued \$140.6 million Series 2004 B general obligation bonds. The proceeds were used to

provide funds for certain highway projects and various other construction projects.

General obligation bonds payable consist of the following:

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2005
1997 A-E Highway/Capital Facility Issue.....	07/01/97	2001-2007	4.80% to 5.50%	\$ 200,000	\$ 29,775
1997 F Highway Issue	08/01/97	2001-2007	5.00% to 5.50%	\$ 205,000	49,475
1998 A Highway/Capital Facility Issue	07/07/98	2001-2008	5.00%	\$ 265,000	69,100
2001 B Highway/Capital Facility Issue	07/02/01	2004-2009	4.50%	\$ 348,000	176,575
2002 A Highway/Capital Facility Issue	06/27/02	2003-2011	3.00% to 5.25%	\$ 281,200	167,990
2002 B Refunding Issue.....	07/31/02	2004-2012	3.00% to 5.38%	\$ 253,100	251,065
2003 A Highway/Capital Facility Issue	06/26/03	2005-2013	2.00% to 5.00%	\$ 407,405	315,120
2004 A Refunding Issue.....	03/02/04	2010-2016	4.00% to 5.00%	\$ 314,775	314,775
2004 B Highway/Capital Facility Issue	07/01/04	2005-2019	4.75% to 5.00%	\$ 140,635	140,635
Total General Obligation Bonds Outstanding.....					1,514,510
Plus Unamortized Bond Premium.....					96,699
Less Deferred Amount on Refunding					(23,405)
Total General Obligation Bonds Payable					<u>\$ 1,587,804</u>

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal						
	1997 A-E Highway/Capital Facility	1997 F Highway Bonds	1998 A Highway/Capital Facility	2001 B Highway/Capital Facility	2002A Highway/Capital Facility	2002 B Refunding Bonds	2003 A Highway/Capital Facility
2006.....	\$ 9,350	\$ 15,625	\$ 15,850	\$ 34,900	\$ 45,740	\$ 205	\$ 1,095
2007.....	9,925	16,475	16,775	33,250	48,075	160	7,775
2008.....	10,500	17,375	17,750	34,650	50,575	120	12,825
2009.....	—	—	18,725	36,125	5,525	29,455	59,300
2010.....	—	—	—	37,650	5,750	50,835	61,125
2011-2015	—	—	—	—	12,325	170,290	173,000
2016-2020	—	—	—	—	—	—	—
Total.....	<u>\$ 29,775</u>	<u>\$ 49,475</u>	<u>\$ 69,100</u>	<u>\$ 176,575</u>	<u>\$ 167,990</u>	<u>\$ 251,065</u>	<u>\$ 315,120</u>

Continues Below

Fiscal Year	Principal				
	2004 A Refunding Bonds	2004 B Highway/Capital Facility	Total Principal Required	Total Interest Required	Total Amount Required
2006.....	\$ —	\$ 14,355	\$ 137,120	\$ 67,571	\$ 204,691
2007.....	—	7,785	140,220	60,597	200,817
2008.....	—	6,865	150,660	53,100	203,760
2009.....	—	9,970	159,100	45,845	204,945
2010.....	—	11,180	166,540	37,897	204,437
2011-2015	183,460	67,630	606,705	86,158	692,863
2016-2020	131,315	22,850	154,165	5,268	159,433
Total.....	<u>\$ 314,775</u>	<u>\$ 140,635</u>	<u>\$ 1,514,510</u>	<u>\$ 356,436</u>	<u>\$ 1,870,946</u>

C. Revenue Bonds

Revenue bonds payable consist of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies. The bonds are secured by the facilities and repayment is made from lease income. The outstanding bonds payable at June 30, 2005, are reported as a long-term liability of the governmental activities, except for \$30.132 million and \$1.089 million which are reported in the Alcoholic Beverage Control Fund, and the Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2005, the average interest rate for the SBOA Series 2001 C variable rate demand lease revenue bonds was 1.84 percent, there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 2.4 percent, which was the rate in effect at yearend.

Revenue bonds payable consist of the following:

Revenue Bonds Payable – Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2005
Utah Housing Corporation Issues.....	1985–2005	2005–2047	1.50% to 10.30%	\$ 2,430,667	\$ 1,342,088
Colleges and Universities Revenue Bonds	1987–2005	2005–2035	variable and 1.90% to 8.49%	\$ 544,655	402,656
Total Revenue Bonds Outstanding					1,744,744
Colleges and Universities Less Unamortized Bond Discount.....					(764)
Total Revenue Bonds Payable					<u>\$ 1,743,980</u>

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Funds and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget that would otherwise be expended for rent.

The Student Assistance Programs have \$391.635 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds that are set by an auction procedure every 28 days in the amount of \$312.100 million and \$780.550 million of bonds that are auctioned every 35 days.

Discrete Component Units

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

Revenue Bonds Payable – Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2005
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A.....	07/15/92	1993–2011	5.30% to 5.75%	\$ 26,200	\$ 12,945
Series 1992 B.....	07/15/92	1994–2011	4.00% to 6.00%	\$ 1,380	705
Series 1993 A.....	12/01/93	1995–2013	4.50% to 5.25%	\$ 6,230	3,320
Series 1995 A.....	07/01/95	1996–2007	5.00% to 5.75%	\$ 92,260	8,025
Series 1996 A.....	07/01/96	1997–2007	5.50% to 6.00%	\$ 42,895	3,755
Series 1996 B.....	11/01/96	1999–2007	5.00%	\$ 16,875	2,245
Series 1998 A.....	07/01/98	1999–2008	3.75% to 5.00%	\$ 24,885	2,120
Series 1998 C.....	08/15/98	2000–2019	3.80% to 5.50%	\$ 101,557	101,272
Series 1999 A.....	08/01/99	2001–2009	5.25%	\$ 6,960	1,080
Series 2001 A.....	11/21/01	2005–2021	4.00% to 5.00%	\$ 69,850	67,850
Series 2001 B.....	11/21/01	2002–2024	3.00% to 5.75%	\$ 14,240	13,730
Series 2001 C.....	11/21/01	2005–2022	variable	\$ 30,300	30,300
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	\$ 20,820	20,775
Series 2004 A.....	10/26/04	2005–2027	3.00% to 5.25%	\$ 32,458	32,076
Series 2004 B.....	10/26/04	2005–2013	3.00% to 5.00%	\$ 8,920	8,700
Total Lease Revenue Bonds Outstanding .					308,898
Plus Unamortized Bond Premium					4,696
Less Deferred Amount on Refunding					(1,956)
Total Lease Revenue Bonds Payable					<u>\$ 311,638</u>
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures	1988–2005	1998–2044	Variable and 4.45% to 6.00%	\$1,547,375	\$ 1,534,050
Office Facility Bond Fund	2002, 2004	2003–2024	3.00% to 5.13%	\$ 11,780	10,780
Total Revenue Bonds Outstanding.....					1,544,830
Plus Unamortized Bond Premium					48
Total Revenue Bonds Payable					<u>\$ 1,544,878</u>
SBOA Lease Revenue Bonds:					
Series 1995A.....	07/01/95	1996–2007	5.00% to 5.70%	\$ 740	\$ 75
Series 1996 A.....	07/01/96	1997–2007	5.50% to 6.00%	\$ 1,830	160
Series 1997 A.....	12/01/97	1999–2008	4.60% to 4.70%	\$ 4,150	565
Series 1998 A.....	07/01/98	1999–2008	4.40% to 5.00%	\$ 825	95
Series 1998 C.....	08/15/98	2000–2019	3.80% to 5.50%	\$ 3,543	3,533
Series 1999 A.....	08/01/99	2001–2009	5.25%	\$ 2,495	415
Series 2001 B.....	11/21/01	2004–2023	3.25% to 5.25%	\$ 11,540	10,760
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	\$ 1,905	1,835
Series 2004 A.....	10/26/04	2005–2025	3.00% to 5.25%	\$ 13,347	13,234
Total Lease Revenue Bonds Outstanding .					30,672
Plus Unamortized Bond Premium					1,013
Less Deferred Amount on Refunding					(464)
Total Lease Revenue Bonds Payable					<u>\$ 31,221</u>
Total Lease Revenue/ Revenue Bonds Payable.....					<u>\$ 1,887,737</u>

Revenue Bond Issues – Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal							
	Utah State Student Assistance Programs	1992 A Utah State Building Ownership Authority	1992 B Utah State Building Ownership Authority	1993 A Utah State Building Ownership Authority	1995 A Utah State Building Ownership Authority	1996 A Utah State Building Ownership Authority	1996 B Utah State Building Ownership Authority	1997 A Utah State Building Ownership Authority
2006	\$ 144,920	\$ 1,545	\$ 85	\$ 345	\$ 3,945	\$ 1,905	\$ 1,095	\$ 180
2007	11,330	1,640	90	360	4,155	2,010	1,150	190
2008	61,245	1,735	95	380	—	—	—	195
2009	5,355	1,835	100	400	—	—	—	—
2010	76,610	1,945	105	425	—	—	—	—
2011–2015.....	2,795	4,245	230	1,410	—	—	—	—
2016–2020	3,530	—	—	—	—	—	—	—
2021–2025	57,710	—	—	—	—	—	—	—
2026–2030	80,000	—	—	—	—	—	—	—
2031–2035	329,555	—	—	—	—	—	—	—
2036–2040	536,680	—	—	—	—	—	—	—
2041–2045	235,100	—	—	—	—	—	—	—
Total	<u>\$1,544,830</u>	<u>\$ 12,945</u>	<u>\$ 705</u>	<u>\$ 3,320</u>	<u>\$ 8,100</u>	<u>\$ 3,915</u>	<u>\$ 2,245</u>	<u>\$ 565</u>

Continues Below

Fiscal Year	Principal							
	1998 A Utah State Building Ownership Authority	1998 C Utah State Building Ownership Authority	1999 A Utah State Building Ownership Authority	2001 A Utah State Building Ownership Authority	2001 B Utah State Building Ownership Authority	2001 C Utah State Building Ownership Authority	2003 Utah State Building Ownership Authority	2004 A Utah State Building Ownership Authority
2006	\$ 705	\$ 1,120	\$ 345	\$ 3,175	\$ 895	\$ —	\$ 1,125	\$ 335
2007	735	1,170	365	3,125	935	1,000	1,180	865
2008	775	7,715	380	3,250	965	1,400	1,210	895
2009	—	8,130	405	3,375	1,005	1,500	1,240	1,930
2010	—	8,575	—	3,500	1,055	1,600	1,275	2,405
2011–2015.....	—	47,100	—	20,000	5,905	9,000	5,850	14,040
2016–2020	—	30,995	—	25,525	7,370	11,000	4,905	13,675
2021–2025	—	—	—	5,900	6,360	4,800	5,825	9,205
2026–2030	—	—	—	—	—	—	—	1,960
2031–2035	—	—	—	—	—	—	—	—
2036–2040	—	—	—	—	—	—	—	—
2041–2045	—	—	—	—	—	—	—	—
Total	<u>\$ 2,215</u>	<u>\$ 104,805</u>	<u>\$ 1,495</u>	<u>\$ 67,850</u>	<u>\$ 24,490</u>	<u>\$ 30,300</u>	<u>\$ 22,610</u>	<u>\$ 45,310</u>

Continues Below

Revenue Bond Issues – Primary Government (continued)
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal	Total Principal Required	Total Interest Required	Total Amount Required
	2004 B Utah State Building Ownership Authority			
2006.....	\$ 85	\$ 161,805	\$ 61,635	\$ 223,440
2007.....	90	30,390	59,050	89,440
2008.....	1,295	81,535	57,561	139,096
2009.....	1,340	26,615	54,842	81,457
2010.....	1,380	98,875	53,075	151,950
2011–2015	4,510	115,085	239,263	354,348
2016–2020	—	97,000	210,112	307,112
2021–2025	—	89,800	191,734	281,534
2026–2030	—	81,960	167,766	249,726
2031–2035	—	329,555	142,942	472,497
2036–2040	—	536,680	82,560	619,240
2041–2045	—	235,100	13,405	248,505
Total.....	<u>\$ 8,700</u>	<u>\$ 1,884,400</u>	<u>\$ 1,333,945</u>	<u>\$ 3,218,345</u>

Revenue Bond Issues – Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal				Total Principal Required	Interest Required	Total Amount Required
	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units			
2006.....	\$ 120,628	\$ 8,283	\$ 3,329	\$ 5,348	\$ 137,588	\$ 77,033	\$ 214,621
2007.....	34,883	10,696	3,025	4,805	53,409	76,884	130,293
2008.....	40,475	10,808	3,178	5,048	59,509	74,510	134,019
2009.....	40,641	11,669	3,319	5,276	60,905	71,942	132,847
2010.....	40,911	12,420	3,462	5,504	62,297	69,260	131,557
2011–2015	174,193	60,486	19,917	21,291	275,887	305,238	581,125
2016–2020	144,088	52,540	16,383	14,772	227,783	244,453	472,236
2021–2025	187,847	40,607	12,191	7,538	248,183	184,706	432,889
2026–2030	243,649	30,591	11,905	3,380	289,525	117,475	407,000
2031–2035	226,706	—	14,100	785	241,591	46,771	288,362
2036–2040	64,336	—	—	—	64,336	11,018	75,354
2041–2045	22,169	—	—	—	22,169	3,578	25,747
2046–2050	1,562	—	—	—	1,562	59	1,621
Total.....	<u>\$ 1,342,088</u>	<u>\$ 238,100</u>	<u>\$ 90,809</u>	<u>\$ 73,747</u>	<u>\$ 1,744,744</u>	<u>\$ 1,282,927</u>	<u>\$ 3,027,671</u>

D. Conduit Debt Obligations

Of the Utah Housing Corporation (component unit) bonds outstanding, \$255.028 million were issued as multi-family purchase bonds. Of those bonds, \$247.633 million are conduit debt obligations issued on behalf of third parties. The Corporation is not obligated in any manner for repayment of the conduit debt. However, in accordance with the Corporation's accounting policies, the conduit debt is reported in the Corporation's financial statements.

In 1985, the State Board of Regents authorized the University of Utah (component unit) to issue Variable Rate Demand Industrial Development Bonds for the University Park Hotel, a limited partnership separate from the University. The bonds are payable solely from revenues of the University Park Hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2005, \$6.785 million of Variable Rate Demand Industrial Development Bonds are outstanding.

E. Demand Bonds

- The Utah State Building Ownership Authority (SBOA) issued \$30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

In the case that the bonds cannot be remarketed, the SBOA has an irrevocable direct-pay letter of credit with Landesbank Hessen-Thüringen Girozentrale (Helaba) acting through its New York Branch in the amount of \$30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 18.5 basis points paid on a quarterly basis. The letter of credit expires on December 31, 2015, and as of June 30, 2005, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

The letter of credit also has a take out agreement for the bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the take out agreement were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of \$8.406 million a year for five years, based on the maximum rate.

- The Student Loan Purchase Program had \$391.635 million of demand bonds outstanding at June 30, 2005, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit

agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

An unused irrevocable direct-pay letter of credit expiring November 15, 2011, in the amount of \$37.462 million supports the Series 1993 A bonds of \$35 million. Standby bond purchase agreements of \$110.677 million expiring November 15, 2005 support the Series 1988 C and 1995 L bonds of \$104.5 million, \$108.4 million expiring April 29, 2025, support the Series 1996 Q and 1997 R bonds of \$101.055 million and 158.753 million expiring February 11, 2024 to support the 2005 Series W and X bonds of \$151.08 million. As of June 30, 2005, the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

- The Utah Housing Corporation (component unit) had \$542.810 million of bonds outstanding at June 30, 2005, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on delivery to the remarketing agent.

In the case that the variable rate bonds cannot be remarketed, the Corporation has entered into various irrevocable Standby Bond Purchase Agreements (Liquidity Facility) with four different banks totaling \$800 million. These Agreements provide that these institutions will provide funds to purchase the variable rate bonds that have been tendered and not remarketed. These liquidity providers receive a fee ranging from 12.5 to 17.5 basis points of the outstanding amount of the variable rate bonds paid on a quarterly basis. The Corporation has not drawn on any of the facilities to date.

- The University of Utah (component unit) Series 1997 A bonds in the amount of \$14 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the Series 1997 A bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 2.40 percent, which is the rate in effect of June 30, 2005.

In the event the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. As of June 30, 2005, the University had not drawn any funds under the standby bond purchase agreement.

F. Defeased Bonds and Bond Refunding

On October 26, 2004, the Utah State Building Ownership Authority issued \$45.805 million of Lease Revenue and Refunding Bonds Series 2004 A and used \$19.095 million of the proceeds to advance refund \$2.615 million, \$9.25 million, and \$6.7 million of Series 1997 A, 1998 A, and 1999 A Lease Revenue Bonds, respectively. The principal amount of the refunding bonds and \$1.35 million of original issue premium were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account

assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.88 million. This difference, reported in the Statement of Net Assets as a deduction from bonds payable, is being charged to operations through fiscal year 2021 using the bonds outstanding method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by \$400 thousand over 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$300 thousand.

On October 26, 2004, the Utah State Building Ownership Authority issued \$8.92 million of Lease Revenue Refunding Bonds Series 2004 B to advance refund \$8.27 million of Series 1996 B Lease Revenue Bonds. The principal amount of the refunding bonds and \$64 thousand of original issue premium were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$714 thousand. This difference, reported in the Statement of Net Assets as a deduction from bonds payable, is being charged to operations through fiscal year 2013 using the bonds outstanding method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by \$362 thousand over 8 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$318 thousand.

In prior years, the State defeased certain general obligation and revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2005, the total amount outstanding of defeased general obligation bonds was \$571.91 million. At June 30, 2005, the total amount outstanding of defeased revenue bonds, including the bonds advanced refunded in fiscal year 2005 was \$116.795 million.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2005, \$66.240 million of college and university bonds outstanding are considered defeased.

G. Contracts Payable

Component unit capital leases/contracts payable include \$5.576 million in life annuity contracts.

H. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 25 years. They are secured by the related assets.

Notes Payable Debt Service Requirements to Maturity Component Units For Fiscal Years Ending June 30 (Expressed in Thousands)

Fiscal Year	Principal				Total Principal Required	Interest Required	Total Amount Required
	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units			
2006.....	\$ 20	\$ 629	\$ 1,240	\$ 1,022	\$ 2,911	\$ 2,217	\$ 5,128
2007.....	22	578	1,239	5,076	6,915	2,092	9,007
2008.....	24	614	1,289	507	2,434	1,813	4,247
2009.....	27	652	1,312	470	2,461	1,688	4,149
2010.....	30	699	1,295	841	2,865	1,552	4,417
2011–2015	200	4,325	4,931	970	10,426	5,829	16,255
2016–2020	4	5,681	4,278	746	10,709	2,758	13,467
2021–2025	—	395	3,946	524	4,865	463	5,328
2026–2030	—	—	—	270	270	28	298
Total.....	\$ 327	\$ 13,573	\$ 19,530	\$ 10,426	\$ 43,856	\$ 18,440	\$ 62,296

I. Debt Service Requirements for Derivatives

Swap Payments and Associated Debt — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into pay-fixed, receive-variable interest rate swaps as of June 30, 2005. Using rates as of June 30, 2005, debt service

requirements of the Corporation's outstanding variable-rate debt and net swap payments are summarized below (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 90 for Utah Housing Corporation.

Utah Housing Corporation
Swap Payments and Associated Debt
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006.....	\$ 17,735	\$ 13,972	\$ 9,880	\$ 41,587
2007.....	4,805	13,449	11,028	29,282
2008.....	4,555	13,303	10,926	28,784
2009.....	4,340	13,165	10,830	28,335
2010.....	4,280	13,034	10,738	28,052
2011–2015	18,185	63,521	52,413	134,119
2016–2020	44,300	60,116	49,122	153,538
2021–2025	84,275	52,335	41,944	178,554
2026–2030	159,675	38,181	28,927	226,783
2031–2035	181,260	14,380	8,773	204,413
2036–2040	17,985	519	107	18,611
Total.....	<u>\$ 541,395</u>	<u>\$ 295,975</u>	<u>\$ 234,688</u>	<u>\$ 1,072,058</u>

NOTE 11. GOVERNMENTAL FUND BALANCES AND NET ASSETS RESTRICTED BY ENABLING LEGISLATION**A. Governmental Fund Balances – Reserved and Designated**

The State's reserved fund balances represent: *(1) Nonlapsing Appropriations* which include continuing appropriations or

nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or *(2) Restricted Purposes* which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2005, follows:

Reserved Fund Balances (Expressed in Thousands)			
	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature.....	\$ 2,930	\$ —	\$ 2,930
Governor	3,786	1,237	5,023
Elected Officials.....	1,195	1	1,196
Administrative Services	10,431	6	10,437
Tax Commission	11,909	12,882	24,791
Human Services	5,732	5,707	11,439
Corrections.....	2,163	29	2,192
Public Safety	29,138	7,231	36,369
Courts.....	1,216	5,074	6,290
Health.....	4,328	1,727	6,055
Environmental Quality	783	6,377	7,160
Employment and Family Services.....	6,914	9,117	16,031
Natural Resources	11,527	18,889	30,416
Community and Economic Development	11,805	2,572	14,377
Business, Labor, and Agriculture	9,102	7,626	16,728
Industrial Assistance Account	—	27,884	27,884
Loans to Internal Service Funds.....	—	14,893	14,893
Tobacco Settlement Funds	—	6,102	6,102
Oil Overcharge Funds	—	6,777	6,777
Mineral Bonus Account.....	—	9,289	9,289
Other Purposes	468	5,513	5,981
Total	<u>\$ 113,427</u>	<u>\$ 148,933</u>	<u>\$ 262,360</u>
Uniform School Fund:			
Minimum School Program.....	\$ 30,123	\$ —	\$ 30,123
State Office of Education	10,102	—	10,102
School Building Program.....	—	8,541	8,541
School Land Interest	—	14,068	14,068
Total	<u>\$ 40,225</u>	<u>\$ 22,609</u>	<u>\$ 62,834</u>
Transportation Fund:			
Transportation	\$ 2,263	\$ —	\$ 2,263
Public Safety	—	8,723	8,723
Corridor Preservation.....	—	7,398	7,398
Aeronautical Programs.....	—	5,038	5,038
Salt Lake County Road Construction.....	—	23,066	23,066
Total	<u>\$ 2,263</u>	<u>\$ 44,225</u>	<u>\$ 46,488</u>
Trust Lands Fund:			
Funds Held as Permanent Investments.....	\$ —	\$ 594,251	\$ 594,251
Non-major Governmental Funds:			
Capital Projects	\$ 283,718	\$ 13,824	\$ 297,542
Debt Service.....	—	6,755	6,755
Tobacco Settlement Funds	—	18,109	18,109
Environmental Reclamation.....	—	16,224	16,224
Other Purposes	—	5,943	5,943
Total	<u>\$ 283,718</u>	<u>\$ 60,855</u>	<u>\$ 344,573</u>

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Designated for:						
Budget Reserve (Rainy Day) Account	\$ 105,613	\$ —	\$ —	\$ —	\$ —	\$ 105,613
Education Budget Reserve Account	—	40,542	—	—	—	40,542
Post-employment and Other Liabilities	179,517	179,018	45,560	635	—	404,730
Fiscal Year 2006 Appropriations:						
Line Item Appropriations	74,599	43,054	—	—	—	117,653
Industrial Assistance Account	3,263	—	—	—	—	3,263
Tourism Marketing Account	4,000	—	—	—	—	4,000
Capital Projects	—	—	—	—	69	69
Debt Service	—	—	—	—	5,881	5,881
Total	\$ 366,992	\$ 262,614	\$ 45,560	\$ 635	\$ 5,950	\$ 681,751

B. Net Assets Restricted by Enabling Legislation

The State's net assets restricted by enabling legislation represent resources which a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the government to use only for the purpose specified by the legislation.

The government-wide Statement of Net Assets reports \$2.45 billion of restricted net assets, of which \$13.2 million is restricted by enabling legislation.

NOTE 12. DEFICIT NET ASSETS AND FUND BALANCE

Funds reporting a deficit total net assets position at June 30, 2005, are (in thousands):

Private Purpose Trust Funds:

Employers' Reinsurance	\$ (202,713)
Petroleum Storage Tank	\$ (54,433)

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust

only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2005, are (in thousands):

Internal Service Funds:

General Services	\$ (1,548)
Fleet Operations	\$ (23,494)

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

In addition, the Capital Projects – General Government Fund (nonmajor governmental fund) reported a \$71.196 million deficit unreserved undesignated fund balance as a result of outstanding encumbrances on various capital projects. Appropriations and bond proceeds available in the next fiscal year will fund this deficit.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act*. Interfund transfers for the fiscal year ended June 30, 2005, are as follows (in thousands):

	Transfers In:					
	Governmental Funds					
	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Trust Lands Fund	Nonmajor Governmental Funds
Transfers Out:						
General Fund	\$ —	\$ 2,980	\$ 36,244	\$ 59,595	\$ 22	\$ 150,515
Uniform School Fund	200,951	—	—	—	—	87,921
Transportation Fund	32,276	—	—	74,750	—	2,190
Centennial Highway Fund	—	—	12,162	—	—	125,689
Nonmajor Governmental Funds ..	8,359	—	—	—	—	6,608
Unemployment Compensation	2,160	—	—	—	—	—
Water Loan Programs	2,950	—	—	—	—	—
Nonmajor Enterprise Funds	42,799	—	—	—	—	—
Internal Service Funds	4,818	—	—	—	—	—
Total Transfers In	\$ 294,313	\$ 2,980	\$ 48,406	\$ 134,345	\$ 22	\$ 372,923

Continues Below

	Enterprise Funds			
	Water Loan Programs	Nonmajor Enterprise Funds	Internal Service Funds	Total Transfers Out
Transfers Out:				
General Fund	\$ 1,582	\$ 36,937	\$ 611	\$ 288,486
Uniform School Fund	—	—	—	288,872
Transportation Fund	—	—	—	109,216
Centennial Highway Fund	—	—	—	137,851
Nonmajor Governmental Funds ..	—	—	47	15,014
Unemployment Compensation	—	—	—	2,160
Water Loan Programs	—	—	—	2,950
Nonmajor Enterprise Funds	—	—	—	42,799
Internal Service Funds	—	—	—	4,818
Total Transfers In	\$ 1,582	\$ 36,937	\$ 658	\$ 892,166

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2005, the legislature authorized transfers of \$4.818 million from the Internal Service Funds to the General Fund to subsidize general fund revenues. In addition, the Legislature authorized payments of \$640.401 million to the Colleges and Universities. Payments to Colleges and Universities are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS**A. Litigation**

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages of \$142 million including interest and attorneys' fees.
- There is currently a suit pending seeking a refund of taxes paid. Damages in this case have not yet been specified. In the event of an adverse ruling, the State estimates the damages sought could be in the range of \$8 to \$20 million.
- In addition to the items above, the State is contesting other legal actions totaling over \$25 million plus attorneys' fees and interest in some cases.

B. Contingencies

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, identified questioned costs are immaterial. Other audit findings on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2005, is in process and management expects proposed disallowances to be immaterial.
- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.
- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately \$20 million per year for fiscal years 2006 through 2007. The State received \$43.767 million in fiscal year 2005. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.
- The State is totally self-insured against liability claims and up to \$2.5 million in property claims. According to an actuarial study and other known factors, \$44.673 million exists as either incurred but unfiled or unpaid claims. This amount is reported

as a liability of the Administrative Services Risk Management Fund (internal service fund).

- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953*, as amended, Sections 53A-28-101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guaranteed Bonds.

In the event a school board is unable to make the scheduled debt service payments on its Guaranteed Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guaranteed Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guaranteed Bonds for any significant period of time.

Local school boards have \$1.674 billion principal amount of Guaranteed Bonds outstanding at June 30, 2005. The State cannot predict the amount of bonds that may be guaranteed in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most of the smaller manufacturers have joined the agreement. The State received \$28.353 million from tobacco companies in fiscal year 2005 and expects to receive approximately \$24.441 million in fiscal year 2006. Annual payments will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

C. Commitments

- At June 30, 2005, the Industrial Assistance Program of the General Fund had grant commitments of \$16.196 million, contingent on participating companies meeting certain performance criteria.
- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2004, committed to fund certain alternative investment partnerships and real estate projects for an amount of \$3.373 billion. Funding of \$2.303 billion has been provided, leaving an unfunded commitment of \$1.07

billion as of December 31, 2004, which will be funded over the next six years.

- As of June 30, 2005, the Utah Housing Corporation (major component unit) has committed to purchase mortgages under the Single-Family Mortgage Purchase Program in the amount of \$25.395 million. The Corporation has a revolving credit loan with a community development company in the amount of \$2.5 million due February 3, 2006. At June 30, 2005, the outstanding balance was \$817 thousand and bears interest at the LIBOR Rate plus 2.5 percent. Interest payments are due monthly.
- At June 30, 2005, the enterprise funds had loan commitments of approximately \$136.680 million and grant commitments of approximately \$30.419 million.
- At June 30, 2005, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, major enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately \$2.098 billion. Also, at June 30, 2005, the Student Assistance Programs had commitments to purchase approximately \$422 million in student loans and provide approximately \$12.561 million in reductions to borrower loan balances.
- At June 30, 2005, the Department of Transportation had construction and other contract commitments of \$631.901 million, of which \$418.421 million is for Centennial Highway Fund (special revenue fund) projects and \$213.480 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 15. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of \$185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN had \$10.86 million of revenue bonds outstanding at June 30, 2005. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding

from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The Utah State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the Utah State Auditor's Office.

NOTE 16. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. Utah Retirement Systems

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953*, as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans it administers. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2004, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Public Employees Retirement System (PERS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Fire-fighters Retirement System, which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;
- The Public Safety Retirement System, which is a defined-benefit mixed agent and cost-sharing, multiple-employer retirement system;
- The Judges Retirement System and the Governors and Legislative Pension Plan, which are single-employer service employee retirement systems; and the 401(k) and 457 Plans, which are defined contribution plans.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years	Highest 3 Years	Highest 2 Years
Years of Service	30 years any age	30 years any age	20 years any age	20 years any age	25 years any age
Required and/or Age	*20 years age 60	*25 years any age	10 years age 60	10 years age 60	*20 years age 55
Eligible for Benefit	*10 years age 62	*20 years age 60	4 years age 65	4 years age 65	10 years age 62
	4 years age 65	*10 years age 62			6 years age 70
		4 years age 65			
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary	5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary	

*With actuarial reductions

Former governors at age 65 receive \$1,120 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of \$24.80 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future

benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or insurance premium taxes. Below is a summary of system participants.

Participants
December 31, 2004

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Pension Plan
Number of participating:						
Employers	161	391	119	44	1	1
Members:						
Active	3,393	85,046	7,173	1591	106	95
Terminated vested.....	1,430	23,823	1,192	77	7	87
Retirees and beneficiaries:						
Service benefits	6,514	23,774	3,031	875	84	221
Disability benefits	4	—	16	58	—	—

Employer contribution rates consist of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and (2) an amount for amortization of the unfunded, or excess funded actuarial accrued liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Pension Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

**State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)**

	Contributory System	Non- contributory System	Public Safety System	Fire- fighters System	Judges System	Total All Systems
Primary Government:						
2005	\$ 4,335	\$ 80,966	\$ 21,112	\$ 52	\$ 814	\$ 107,279
2004	\$ 3,894	\$ 67,745	\$ 19,165	\$ 50	\$ 782	\$ 91,636
2003	\$ 3,683	\$ 60,033	\$ 16,713	\$ 47	\$ 539	\$ 81,015
2002	\$ 5,777	\$ 93,037	\$ 25,921	\$ 58	\$ 928	\$ 125,721
2001	\$ 4,902	\$ 78,752	\$ 19,772	\$ 56	\$ 1,615	\$ 105,097
Component Units:						
Colleges and Universities:						
2005	\$ 2,201	\$ 35,195	\$ 422	\$ —	\$ —	\$ 37,818
2004	\$ 1,996	\$ 30,434	\$ 411	\$ —	\$ —	\$ 32,841
2003	\$ 1,840	\$ 29,409	\$ 375	\$ —	\$ —	\$ 31,624
2002	\$ 1,904	\$ 28,028	\$ 399	\$ —	\$ —	\$ 30,331
2001	\$ 2,398	\$ 33,575	\$ 442	\$ —	\$ —	\$ 36,415
Other:						
2005	\$ 59	\$ 2,273	\$ —	\$ —	\$ —	\$ 2,332
2004	\$ 52	\$ 1,913	\$ —	\$ —	\$ —	\$ 1,965
2003	\$ 44	\$ 1,609	\$ —	\$ —	\$ —	\$ 1,653
2002	\$ 43	\$ 258	\$ —	\$ —	\$ —	\$ 301
2001	\$ 50	\$ 352	\$ —	\$ —	\$ —	\$ 402
Total Primary Government and Component Units:						
2005	\$ 6,595	\$ 118,434	\$ 21,534	\$ 52	\$ 814	\$ 147,429
2004	\$ 5,942	\$ 100,092	\$ 19,576	\$ 50	\$ 782	\$ 126,442
2003	\$ 5,567	\$ 91,051	\$ 17,088	\$ 47	\$ 539	\$ 114,292
2002	\$ 7,724	\$ 121,323	\$ 26,320	\$ 58	\$ 928	\$ 156,353
2001	\$ 7,350	\$ 112,679	\$ 20,214	\$ 56	\$ 1,615	\$ 141,914

The following schedule summarizes contribution rates in effect at December 31, 2004:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00%	7.08% – 8.89%	—
Noncontributory	—	11.09% – 13.38%	—
Public Safety:			
Contributory	10.50% – 13.74%	7.70% – 19.96%	—
Noncontributory	—	19.08% – 32.52%	—
Firefighters:			
Group A	8.61%	—	12.16%
Group B	7.83%	—	12.16%
Judges:			
Contributory	2.00%	5.14%	19.69%
Noncontributory	—	7.14%	19.69%
Governors and Legislative	—	—	—

401(k) and 457 Deferred Compensation Plans

The 401(k) Plan and 457 Plan administered by URS, in which the State participates, are deferred compensation plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems for employees of employers that have adopted the 401(k) and 457 Plans. Voluntary contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 344 employers participating in the 401(k) Plan and 153 employers participating in the 457 Plan. There are 125,312 plan participants in the 401(k) Plan and 12,532 participants in the 457 Plan.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The 401(k) and 457 Plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2005, by employees and employers are as follows: for Primary Government, \$32.269 million and \$10.939 million; for Component

Units – Colleges and Universities, \$3.842 million and \$4.171 million; for Component Units – Other, \$884 thousand and \$542 thousand; and the combined total for all is \$36.995 million and \$15.652 million, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis, which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 13 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 13 percent, approximately 6 percent are U.S. Government debt securities and 7 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets available for benefits. The principal components of the receivables and investment categories are presented below.

Pension Receivables and Investments
(Expressed in Thousands)

	Contributory System	Non- contributory System	Public Safety System	Fire- fighters System	Judges System	Governors and Legislative Pension Plan	401(k) Plan	457 Plan	Total December 31, 2004
Receivables:									
Member Contributions	\$ 339	\$ —	\$ 103	\$ 147	\$ —	\$ —	\$ —	\$ —	\$ 589
Employer Contributions	479	23,672	1,939	—	31	—	—	—	26,121
Court Fees and Fire Insurance Premium	—	—	—	2,306	173	—	—	—	2,479
Investments	20,157	271,204	33,830	13,505	2,237	235	37,329	1,661	380,158
Total Receivables	<u>\$ 20,975</u>	<u>\$ 294,876</u>	<u>\$ 35,872</u>	<u>\$ 15,958</u>	<u>\$ 2,441</u>	<u>\$ 235</u>	<u>\$ 37,329</u>	<u>\$ 1,661</u>	<u>\$ 409,347</u>
Investments:									
Debt Securities	\$ 221,819	\$ 2,984,445	\$ 372,279	\$ 148,614	\$ 24,618	\$ 2,587	\$ 641,828	\$ 68,608	\$ 4,464,798
Equity Investments	584,665	7,866,305	981,237	391,715	64,888	6,820	1,179,454	125,555	11,200,639
Venture Capital	32,645	439,223	54,790	21,872	3,623	381	—	—	552,534
Real Estate	98,858	1,330,076	165,912	66,233	10,972	1,153	—	—	1,673,204
Mortgage Loans	394	5,293	660	263	44	5	—	—	6,659
Invested Securities									
Lending Collateral	136,539	1,837,043	229,152	91,478	15,153	1,593	52,879	5,315	2,369,152
Investment Contracts	—	—	—	—	—	—	32,734	17,499	50,233
Total Investments	<u>\$ 1,074,920</u>	<u>\$ 14,462,385</u>	<u>\$ 1,804,030</u>	<u>\$ 720,175</u>	<u>\$ 119,298</u>	<u>\$ 12,539</u>	<u>\$ 1,906,895</u>	<u>\$ 216,977</u>	<u>\$ 20,317,219</u>

Actuarial Methods and Assumptions

The information contained in the Schedules of Funding Progress is based on the actuarial study dated January 1, 2004 and calendar year 2004 activity. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last

ten years in their separately presented financial reports based on the report generated by the latest actuarial study, conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's

excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, open period. An inflation rate of 3 percent is used for all systems. Post

retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below is the Schedule of Funding Progress.

**Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)**

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Pension Plan
Actuarial Value of Assets:						
January 1, 2003.....	\$ 899,290	\$ 10,848,586	\$ 1,349,435	\$ 553,589	\$ 90,904	\$ 10,719
January 1, 2004.....	\$ 913,949	\$ 11,657,525	\$ 1,448,888	\$ 589,502	\$ 97,412	\$ 10,905
December 31, 2004.....	\$ 913,074	\$ 12,233,337	\$ 1,524,904	\$ 610,688	\$ 100,814	\$ 10,650
Actuarial Accrued Liability (AAL):						
January 1, 2003.....	\$ 976,918	\$ 11,764,353	\$ 1,458,491	\$ 521,164	\$ 90,573	\$ 8,706
January 1, 2004.....	\$ 982,569	\$ 12,351,310	\$ 1,556,758	\$ 549,378	\$ 97,902	\$ 8,812
December 31, 2004.....	\$ 1,011,508	\$ 13,237,071	\$ 1,688,404	\$ 586,925	\$ 104,035	\$ 8,788
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2003.....	\$ 77,628	\$ 915,767	\$ 109,056	\$ (32,425)	\$ (331)	\$ (2,013)
January 1, 2004.....	\$ 68,620	\$ 693,785	\$ 107,870	\$ (40,124)	\$ 490	\$ (2,093)
December 31, 2004.....	\$ 98,434	\$ 1,003,734	\$ 163,500	\$ (23,763)	\$ 3,221	\$ (1,862)
Funding Ratios:						
January 1, 2003.....	92.1%	92.2%	92.5%	106.2%	100.4%	123.1%
January 1, 2004.....	93.0%	94.4%	93.1%	107.3%	99.5%	123.8%
December 31, 2004.....	90.3 %	92.4 %	90.3 %	104.0 %	96.9 %	121.2 %
Annual Covered Payroll:						
January 1, 2003.....	\$ 142,325	\$ 2,929,449	\$ 268,478	\$ 71,354	\$ 11,173	\$ 556
January 1, 2004.....	\$ 139,470	\$ 2,959,347	\$ 278,402	\$ 75,619	\$ 10,888	\$ 556
December 31, 2004.....	\$ 139,362	\$ 3,084,317	\$ 293,797	\$ 79,638	\$ 11,646	\$ 556
UAAL as a Percent of Covered Payroll:						
January 1, 2003.....	54.5%	31.3%	40.6%	(45.4)%	(3.0)%	(362.1)%
January 1, 2004.....	49.2 %	23.4 %	38.7 %	(53.1) %	4.5 %	(376.4) %
December 31, 2004.....	70.6 %	32.5 %	55.7 %	(29.8) %	27.7 %	(334.9) %

B. Teachers Insurance and Annuity Association-College Retirement Equities Fund

Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), privately administered defined-contribution retirement plans, provides individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and staff. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the

employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. Most of the employers contribute both the employer and the employee share of 7.1 percent. The State has no further liability once annual contributions are made.

The total contribution made by the college and university (component units) to the TIAA-CREF retirement system for June 30, 2005 and 2004, were \$98.347 million and \$104.783 million, respectively.

NOTE 17. POSTEMPLOYMENT BENEFITS

At the option of the individual state departments, employees may be offered participation in a post retirement benefits program, as set forth in Section 67–19–14(2) of the *Utah Code*. In order to qualify, the employee must be eligible to receive retirement benefits. Upon retirement most employees, including those age 65 and over, may be paid for 25 percent of unused accumulated sick leave at the employee's current rate of pay. In addition, the employee may receive state paid health and life insurance coverage up to age 65, but not to exceed five years. If the employee has not reached age 65 after the five-year limitation is reached, then that employee may exchange one sick leave day in excess of 60 days, after the 25 percent payout, for one month of paid health and life insurance coverage. After age 65, the employee may use any remaining unused accumulated sick leave to exchange for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of June 30, 2005, there were 2,114 individuals on the program. The insurance coverage is paid 100 percent by the State for individuals retiring before July 1, 2000. Individuals retiring thereafter are required to pay between 2 and 7 percent of the cost depending on the coverage selected.

The 2005 Legislature passed House Bill 213, *Unused Sick Leave at Retirement Amendments* that will become effective January 1, 2006. Beginning January 1, upon retirement, the employee receives 25 percent of the value of unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. State paid health and life insurance coverage, available up to five years to employees who retire prior to age 65, will phase out over the next five years. Each day of unused accumulated sick leave earned prior to January 1, 2006, may continue to be used to exchange for one month of paid health and life insurance coverage for retired employees that have not reached age 65, or for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. However, unused accumulated sick leave earned after January 1, 2006 will be converted to a health reimbursement account for the retiree at retirement.

The Governmental Accounting Standards Board (GASB) issued Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Additionally GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statements 43 and 45, which are effective for the State's fiscal years beginning July 1, 2006 and 2007, respectively, will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and reported similar to pension plans. A preliminary actuarial study was completed to determine the actuarial accrued liability as of December 31, 2004. The study estimated the liability if funded at transition of \$536.033 million, or \$827.911 million if not funded at transition. GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements. The 2006 Legislature is expected to address the funding of these benefits in the next General Session.

The estimated 25 percent sick leave payouts at retirement are included in the liability for compensated absences. Charges to agency budgets are made on an ongoing basis to fund the current payments for postemployment benefits and compensated absences. For the year ended June 30, 2005, \$15.817 million in postemployment benefit expenditures were recognized.

A liability is also reported in the Pension Trust Funds of \$5.285 million, including \$2.196 million for compensated absences, which will be liquidated by assets of Utah Retirement Systems.

All employers who participate in the State Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49–21–201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2005, there are 337 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the year ended June 30, 2005, the State paid \$4.542 million in premiums and the program has \$26.558 million in assets.

NOTE 18. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is the predominant participant in these programs. The Risk Management Fund manages the general property, auto/physical damage, and liability risk of the State. The Public Employees Health Program manages the health insurance programs of the State. The University of Utah and Utah State University (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains a self-insurance fund to manage medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, auto/physical damage, group medical and dental, and some environmental claims. They also service the general risk claims for all local school districts and many charter schools within the State. All funds, agencies, schools, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Programs. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The reserve for liability losses is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into

consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. The Risk Management claim liabilities reserves are reported using a discount rate of 3 percent. The Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 5.5 percent. The primary government and the discrete component units of the State paid premiums to the Public Employees Health Program of \$220.633 million and \$11.607 million, respectively, for health and life insurance coverage in fiscal year 2005. In addition, the State Department of Health paid \$29.150 million in premiums to the Public Employees Health Program for the Children's Health Insurance Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah and Utah State University report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University Hospital have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2004, and June 30, 2005:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2004.....	\$ 43,659	\$ 5,506	\$ (8,742)	\$ 40,423
2005.....	\$ 40,423	\$ 11,250	\$ (7,000)	\$ 44,673
Public Employees Health Program:				
2004.....	\$ 80,254	\$ 412,313	\$(393,253)	\$ 99,314
2005.....	\$ 99,314	\$ 463,990	\$(455,908)	\$ 107,396
College and University Self-Insurance:				
2004.....	\$ 35,000	\$ 124,581	\$(114,682)	\$ 44,899
2005.....	\$ 44,899	\$ 154,507	\$(143,993)	\$ 55,413

NOTE 19. SUBSEQUENT EVENTS

The Salt Lake Community College (nonmajor component unit) broke ground on July 11, 2005, on a new public safety training center on the Salt Lake Community College Miller Campus. The facility will include training facilities for the Utah Department of Public Safety as well as areas for the College's Culinary Arts program and Food Services operation. Construction will include a dormitory-style building for trainees and total approximately 152,000 square feet at an estimated cost of \$21.7 million.

On July 14, 2005, the University of Utah (major component unit) issued \$30.48 million of Hospital Revenue Refunding Bonds Series 2005 A. Principal on the bonds is due annually commencing August 1, 2009 through August 1, 2018. Bond interest is due semiannually commencing February 1, 2006, at rates ranging from 4.50% to 5.00%. Proceeds from these bonds will be used to partially refund Hospital Revenue Bonds Series 1998 and 2001. On August 2, 2005, the University also issued \$42.955 million of Auxiliary and Campus Facilities Revenue Refunding Bonds Series 2005 A. Initial principal payment on the bonds is due April 1, 2006, and annually thereafter commencing on April 1, 2009 through April 1, 2020. Bond interest is due semiannually commencing October 1, 2005, at rates ranging from 3.00% to 5.00%. Proceeds from these bonds will be used to partially refund Auxiliary and Campus Facilities Revenue Bonds Series 1998.

In September of 2005, Weber State University (nonmajor component unit) issued a \$22.81 million Student Fee and Student Facilities System Revenue Bonds, Series 2005 with Zion's Bank Public Finance. The funds from these bonds will be used to renovate the Shephard Student Union Building. This project includes the design, construction, furnishings, and equipment required to complete the renovation. Principal on the bonds is due annually commencing April 1, 2009 through April 1, 2032. Bond interest is due semiannually commencing April 1, 2006, at rates ranging from 3.250% to 5.125%.

Subsequent to June 30, 2005, the Utah Housing Corporation (major component unit) issued \$17 million Single-Family Mortgage Purchase Variable Rate Bonds, Series 2005 E, maturing on January 1, 2027, interest at a variable rate adjusted weekly, and issued \$13 million Single-Family Mortgage Purchase Fixed Rate Bonds, Series 2005 E, maturing on July 1, 2007 through 2015, and on January 1, 2023 and 2028, interest rates of 3.25% to 4.60%.

The Student Loan Purchase Program (Student Assistance Programs, major enterprise fund) issued additional Student Loan Revenue Bonds under the authority of the 1993 Revenue Bonds General Indenture, Thirteenth Supplemental Indenture in the amount of \$185,000,000 dated September 1, 2005. The Series 2005 AA Bonds are limited obligations of the State Board of Regents secured by and payable solely from the Trust Estate established under the Indenture pursuant to which the Series 2005 AA Bonds are issued.